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# The Province of Alberta

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IN THE MATTER OF "THE NATURAL  
GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into  
Scheme to be adopted for Gathering,  
Processing and Transmission of  
Natural Gas in Turner Valley

---

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

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*Session:*

CALGARY, Alberta April 11th, 1945.

VOLUME 22







I N D E X

VOLUME 22

April 11th, 1945.

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9.30 A.M. Session,  
April 11th, 1945.

MR. HARVIE: Mr. Chairman, before Mr. Hill proceeds I wonder if I might apply for directions in regard to calling our witnesses. It would appear that while it had been arranged we would have our witnesses here next Monday, we have had word from Mr. Teis that he is in Louisiana and cannot be here until the first of the month. We could have arranged with Mr. Donellan, who was to lead the rest of the evidence in connection with the new installation, which would take part of next week anyway, but it is beginning to look that we might not even reach him and I am just suggesting it might be in the interests of all to allow us to call them after recess, if that is convenient.

THE CHAIRMAN: How many more witnesses have you on this branch of the case, Mr. Chambers?

MR. CHAMBERS: I have Mr. Stevens-Guille and Mr. Kirkpatrick, and they would deal primarily with new construction, but it is part of the rate base of this property. Mr. Fill is the only witness that I have at the moment on the old properties except Mr. Kirkpatrick who will tie it in, but those two witnesses will take considerable time probably, on account of the detail.

THE CHAIRMAN: Of course I am anxious to avoid bringing witnesses here from long distances at considerable expense and keep them hanging around Calgary, and as long as you gentlemen will furnish us with enough business to keep the sittings going, then so far as we are concerned, we will be quite happy to put the British American rate base over until we resume on whatever the date is in May.



U.S. DEPT. OF AGRICULTURE  
BUREAU OF PLANT INDUSTRY  
WASHINGTON, D.C.

1911

Dr. C. C. Smith, Director

Mr. C. C. Smith

Dear Sir:

I have the honor to acknowledge the receipt of your letter of the 10th inst. in relation to the matter of the proposed extension of the term of the copyright in the case of the book entitled "The History of the United States of America" by John P. Kennedy, published by the American Book Company, New York.

The copyright in this book was secured in 1891, and the term of the copyright is now about to expire. It is proposed to extend the term of the copyright for another term of years.

The American Book Company, the publisher of this book, has applied to the Copyright Office for an extension of the term of the copyright. It is requested that you advise the Copyright Office of the result of your examination of the book.

I am, Sir, very respectfully,  
Yours truly,  
C. C. Smith



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MR. HARVE: I am inclined to think that there is ample to fill in next week.

MR. CHAMBERS: There is the other subject which we skipped, the market sharing position, but I do suggest this, it is not something to be sandwiched in and dropped in the middle. It is very complicated, but we are ready to put a man in on that, but I think it would be advisable not to put a part in and then go to something else.

THE CHAIRMAN: I agree.

MR. STEER: I have a little difficulty here. I have a witness here from Kansas City, Missouri. He has to be back by Friday of this week and it looks as if we could not call him this week, and if I could avoid the necessity of trying to get him to come back next week and have him come say the week of the 7th of May, which is the resumption after the two weeks' adjournment, I think that that might work out satisfactorily.

THE CHAIRMAN: Yes, Mr. Steer, if we cannot finish with him today.

MR. STEER: Yes, if we cannot finish with him today, because he has his reservations made for tonight. I thought we would finish with him today but I doubt it now.

THE CHAIRMAN: I can see another difficulty arising, Mr. Steer, and that is that those in opposing interests would probably say to your witness "This is all new to us, we would like an adjournment for cross-examination".

MR. STEER: Yes, that might be. I am having a resume of this evidence prepared and will furnish it to my friends some time today. I think it is practically impossible that we can get through with his direct examination







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and cross-examination today.

THE CHAIRMAN: Yes.

MR. CHAMBERS: Would this be feasible, and it might save time all around, if this witness is called, and we do not know the nature of the evidence, except I infer what some of the evidence will be from the questions Mr. Steer asked of Mr. Fill, whether we can proceed with the direct examination and then we could adjourn to get ready for his cross-examination.

MR. STEER: You will know from the documents I give you, you will know the nature of his evidence completely.

THE CHAIRMAN: Of course we will have to arrange things to suit the convenience of a witness from so far away.

MR. STEER: Yes.

THE CHAIRMAN: And the other parties. Anything else?

MR. HARVIE: One other thing. We will just call our witnesses, unless there is some further change today, for the commencement of the sittings after the recess.

THE CHAIRMAN: That is correct.

MR. HARVIE: Just to have the record complete, there has been considerable reference made to this statement of the Royalite Oil Company Unit Price Development. I do not think it has been marked as an exhibit.

MR. CHAMBERS: I thought the idea was to attach it as part of Exhibit 59?

THE CHAIRMAN: I thought that was to be added as part of Exhibit 59.



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and the other side of the road.

Q. Now, what time was it?

A. It was about 10:30 or 11:00.

Q. Did you see the car at that time?

A. Yes, I saw it at that time.

Q. What color was it?

A. It was a dark color, possibly black or dark blue.

Q. Did you see the driver?

A. Yes, I saw the driver.

Q. What was the driver doing?

A. The driver was sitting in the car.

Q. Did you see the car move?

A. Yes, I saw the car move.

Q. In which direction?

A. It moved towards the right side of the road.

Q. Did you see the car again?

A. Yes, I saw it again.

Q. What time was it then?

A. It was about 11:30 or 12:00.

Q. Did you see the car again?

A. Yes, I saw it again.

Q. What time was it then?

A. It was about 12:30 or 1:00.

Q. Did you see the car again?

A. Yes, I saw it again.

Q. What time was it then?

A. It was about 1:30 or 2:00.



Edgar G. Hill, recalled,  
Cr.Ex. by Mr. Blanchard.

MR. HARVIE:

As long as that is clear.

.....

EDGAR G. HILL, recalled, cross-  
examined by Mr. Blanchard, testified as follows:-

Q Mr. Hill, I wish to deal for a moment with your gathering lines' valuations. Now I understand that you have estimated their present value on the basis that their average age is seven years?

A Approximately seven years.

Q Approximately seven years?

A Yes. No sir, that is not quite so. I estimated their present value on the basis of the conditions I found them, and then based on that condition and on the belief they are about seven years old, I gave my opinion as to their possible future life.

Q Well in taking the whole life expectancies from the beginning, you estimated that that would be about seven years, that is correct is it?

A Yes, that is right.

Q And you apply the depreciation factor of 5.52%?

A Which was based on an inspection of the property.

Q Well very good?

A Yes, that came first, and the age, I had the age from averaging up the age of the pipe at those points that I inspected it, and then adding in a safety factor to cover the smaller lines, I did not inspect, it worked out at about seven years.

Q And you valued the safety factor at 1%?

A One year in age.

Q Yes?







Edgar G. Hill, recalled,  
Cr. Ex. by Mr. Blanchard.

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A The actual age worked out, that is based on the samples which I inspected, which was the larger pipe, and I added another per cent, because I did not inspect some of the older pipe, the two-inch and small stuff.

Q What about the one-inch?

A The one-inch, of course, value is inconsequential.

Q You have not got a breakdown on that?

A No.

Q That is what I mean?

A No, but I can give you the basis of it, I have it all worked out in my working papers.

Q Let us get back for a moment to what I was trying to get at. Your depreciation figure is 5.52% for the present age, or let us say for the observed depreciation?

A Yes, that is right.

Q And that is at the rate of .79% per annum, taking the life of seven years, is that correct?

A That is correct.

Q Which would give the total life provided the rated depreciation is constant, I mean, it is not increased, of 125 years?

A That is true.

Q That is true?

A Yes.

Q Now you do give them in your report, I think you say that you estimate they are good for 50 years or more?

A Yes sir.

Q I see. By the way, in this breakdown or schedule of costs with respect to pipe lines, which has not yet gone in, or is going in as part of Exhibit 59.

MR. CHAMBERS: That is what they call the unit cost.







Edgar G. Hill, recalled,  
Cr. Ex. by Mr. Blanchard.

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Q MR. BLANCHARD: You have under construction costs  
"Unload, Haul and String". Now is that trucking costs?

A That is the cost primarily of trucking. It takes the  
pipe from the railroad delivery point. I would have to see  
that exhibit to state where it is from, based on, from  
Turner Valley or Okotoks, but it takes the pipe and delivers  
it.

Q Unloading, hauling and stringing, I mean do the truckers do  
all that?

A Yes, the truckers do all that.

Q So that it is all trucking expense is it?

A It is all a trucking expense and supervision. That is, you  
have a stringing foreman. It is substantially all a  
cost of trucking or supervision, that is the foreman, but  
primarily that is trucking, it is hauling costs.

Q It is hauling costs?

A Yes.

Q Do you bring it under the item that you call transportation  
costs?

A No sir.

Q In your unit costs?

A No, that is separate.

Q Pardon?

A That is separate.

Q Well, it does cover the hauling of materials?

A Oh yes. But if you are referring to the allowance for  
transportation, which I made in my estimates of the costs  
of the compressor stations and the other physical properties,  
that is a separate thing. It covers transportation of  
workmen.

Q Just a moment, so that we will be clear about this. May I







Edgar G. Hill, recalled,  
Cr. Ex. by Mr. Blanchard.

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go back to your report, Page 6?

A Yes sir.

Q In which you say this, "The unit costs used in the valuation included costs of purchasing and warehousing, truck transportation from nearest railroad siding to job site, time-keeping and foreman supervision"?

A Yes.

Q Now then, I want to know whether that truck transportation is transportation costs?

A I should have excepted in my statement in the report that the unit cost on pipe did not include the cost of trucking it.

Q But the unit cost on pipe, you say "unload, haul and string", what does haul mean?

A It means.....

Q Trucking, does it not?

A It means trucking, yes sir.

Q All right. Then it is included in your unit costs, is it not?

A Yes, it is included in my unit costs, which are developed in this price development.

Q And when you apply unit cost in your pricing of your pipe, you are including the trucking?

A I am including the trucking.

Q Yes?

A In this unit price I used in the valuation.

Q That is what I wanted?

A But it is not included anywhere else.

Q No, no, no, only with regard to gathering lines?

A That is right.

Q That is quite correct? Only with regard to gathering lines?







Edgar G. Hill, recalled,  
Cr.Ex. by Mr. Blanchard.

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A That is right.

Q So we can take the unloading hauling and stringing as being that item which you referred to on Page 6 of your report as covering truck transportation from nearest railroad siding to job site?

A No, you cannot, that is with respect to pipe lines, or pipe.

Q With regard to pipe?

A With regard to pipe. That does not include the trucking allowance. The trucking allowance is included in the construction costs.

Q Are you looking at this breakdown of yours?

A Yes, I am looking at this breakdown.

Q Now then, under the construction costs you have "Unload, Haul and String"?

A That is right.

Q Is that the trucking charge or is it not?

A It is primarily a trucking charge, yes sir. It is bound to be that, you have to unload, haul and string that pipe.

Q Exactly, I donot quarrel with you at all on that, sir, I am not quarrelling with you about it, I want to know if it is a trucking charge?

A Yes, it is a trucking charge.

Q Very good. Now then, you have an Automobile Expense Charge also?

A Yes sir.

Q What is that for?

A That includes the cost of running automobiles, busses, pick-up trucks, by the foremen supervisors on the job,







Edgar G. Hill, recalled,  
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and the allowance for the cost of hauling the workmen in busses.

Q In other words, it is for the hauling or transportation of personnel?

A Yes sir.

Q That is correct is it?

A Yes, that is correct.

Q All right. So that in your unit cost in gathering lines you have as part of your unit costs trucking for the carriage of materials and the transportation of personnel?

A That is right.

Q All right. We are agreed on that. Now then, I have taken your pricing under the heading "Gas. Gathering Lines" for which you have a present value after allowing depreciation of \$499,971.00, we can pretty nearly make it a half a million dollars?

A Yes sir.

Q Just a moment, I am wrong in that. It is \$565,551.00, page 27.

MR. CHAMBERS: Page 22.

A WITNESS: Page 27 of the Report, \$565,551.00.

Q MR. BLANCHARD: Yes, and I find applying the various factors for trucking and automobile expense to the items contained in your account for gas gathering lines, that there is a total charge for those items of \$23,708.00, or 2% for trucking and transportation of personnel. Would that appear to be about right?

A Yes, I would expect it to be about that..

Q About 2%?

A It runs substantially that.







Edgar G. Hill, recalled,  
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Q What I want to get at is this, in the year 1944 Madison did a great deal of construction, total construction to December 31st, 1944 amounted to \$359,523.00, according to a schedule which has not yet been put in, but which has been submitted, and is Schedule M-7A-44. Now after deducting those items from that schedule for which there is no transportation cost charged, I find that Madison's submission shows a total transportation cost of \$4,202.00 for that amount of construction, which is 1.2%?

A That is possible, I do not know what they are, or how they keep their accounts or how much of that was contracted at a flat price.

Q May I go back for a moment? I made a mistake when I said that your \$23,000.00 was 2%, it is 4%. It is 4%. You have charged 4% for transportation, trucking and transportation, on gathering lines. Now in Madison's submissions they say that transportation where it is charged as the transportation of personnel and materials, which is for the same factor that you have in your gathering lines, their actual cost in 1944 was 1.2%, and your actual charge with respect to gathering lines is 4%. Now how do you account for that?

A I do not know. I think Madison must have included in the cost of their prime work there some contract work which was at a flat price per foot, where the contractor had to stand those costs rather than Madison. I may be wrong but that is my only explanation of it. I do not know. I did not examine their submission and cannot answer your question other than that.

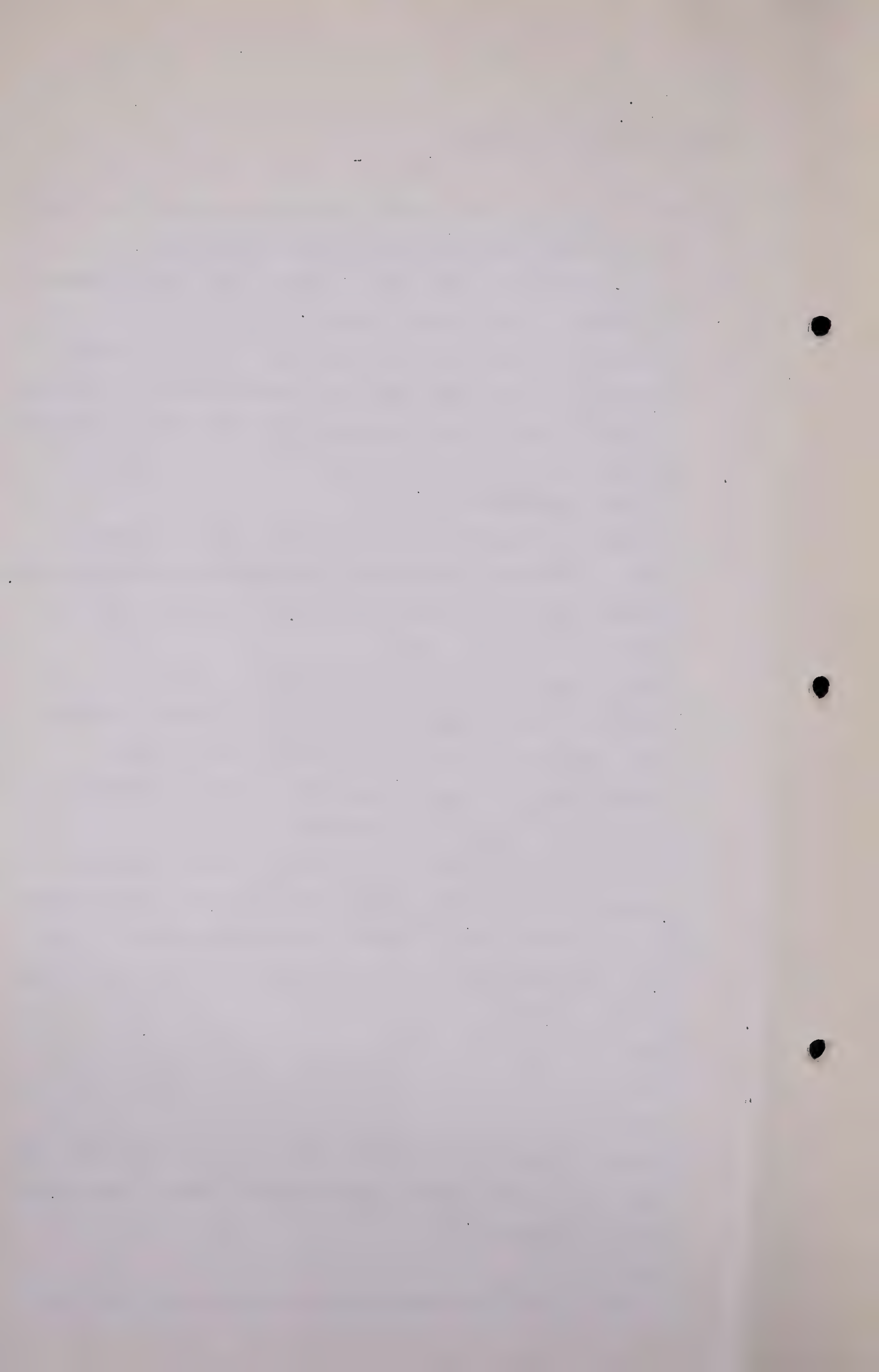




Edgar G. Hill,  
Cross-Ex. by Mr. Blanchard

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- Q And I suppose if the records indicate that you can look into that and see whether you are too high or too low.
- A I would not say I am too high. I would not change my estimate no matter what the books show.
- Q I will leave it at that then, that the actual cost which included gathering lines and other installations in 1944 was 1.2 per cent and in your gathering lines you have an estimate of 4 per cent.
- A That may be entirely so.
- Q Now when you come to your valuations in other departments such as compressor stations and the purifying plant and so on, I notice you use the unit cost for some items and not for others.
- A That is true.
- Q Now then, referring again to your page 6 in which you state "unit costs used in valuation include cost of truck transportation - " and I assume the carriage of personnel.
- A You made that assumption erroneously.
- Q Then leave out the carriage of personnel for a moment and dealing with the unit costs of the compressor station Madison No. 1 and Madison No. 3 and the gas purifying plant do the unit costs mentioned under those various inventories include trucking costs?
- A Yes, sir.
- Q They do?
- A They do.
- Q And in addition to the trucking charges included in your unit costs under those various departments you make a lump transportation charge?
- A Yes.
- Q So that we have two transportation charges under those head-





Edgar G. Hill,  
Cross-Ex. by Mr. Blanchard.

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ings, one included in your unit costs and one that applies to the rest of the valuation that is not put on a unit basis?

A That is true.

Q Then let me go to page 30 and take Station No. 1. You have total new valuation of \$361,099. You see that?

A That is right.

Q Now of that \$361,099, \$72,742 consists of items that are put in on a unit basis?

A I have not checked that.

Q Assuming I am right as to that, I want to know if I am right in a conclusion. Assume I am right about that.

A Yes, sir.

Q That would leave a balance of \$288,357, assuming my figures to be correct. It is a pure matter of addition. Now then your transportation costs of \$7500 on page 30, under the valuation of Madison Station No. 1 is therefore the percentage that \$7500 bears to \$288,357 which is 2.6 per cent. Now in your unit costs have you used the same percentage?

A You mean pipe line unit costs?

Q No, you have a number of unit costs in your account for compressor stations?

A Right.

Q You can look at them.

A Just refer back to one for instance and let me have that. If you can let me have one unit cost and then I could answer the question. I did not include in any of my unit costs an allowance for transporting personnel.

Q But trucking is in the unit costs?

A Trucking is in the unit costs.

Q But not transportation of personnel?





Edgar G. Hill,  
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A Not transportation of personnel.

Q And then to come back to what I was wanting to get, come back to page 30, your \$7500 applies only to the transportation?

A That is true, that is set forth in the report.

Q Then we have to take the percentage that \$7500 bears to \$361,099.

A That is right.

Q And that comes to 2 per cent?

A That is right.

Q Compressor Station No. 3, on the same page, your transportation costs are \$3750 out of a total valuation of \$195,101?

A That is right.

Q That is a percentage of 2.35. Why is there a difference?

A It just happens that way. Those figures I have used are round number figures and they were the general proportion of the cost of the property but are not exact. They are round number figures.

Q But it adds up to quite a lot if you have a lot of money.

A Yes, there is a lot of money in there. It costs a lot of money.

Q Take the Gas Purifying Plant on page 45. There you have \$14,000 for transportation of personnel.

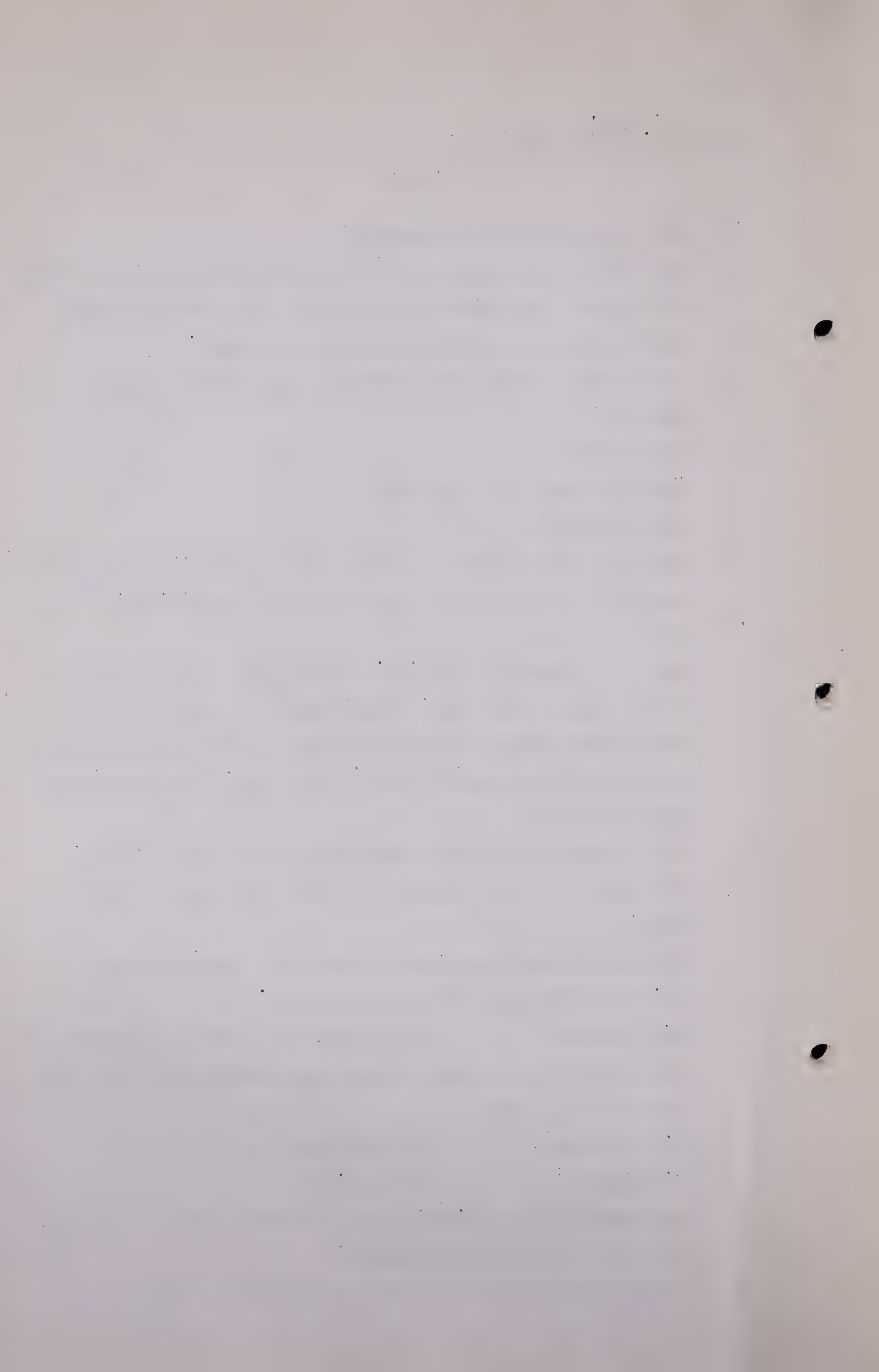
MR. CHAMBERS: Would you mind letting me object?  
You said that in the case of the Compressor Station that the cost was 2 per cent?

MR. BLANCHARD: I said 2 per cent.

MR. CHAMBERS: It is 1.92.

Q Then change that to 1.92 and check me on the next. I may be wrong but I am not intentionally.

A It works out to about 2 per cent as a general thing.





Edgar G. Hill,  
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Q My arithmetic always leaves something to be desired.

THE CHAIRMAN: And you have not a slide rule.

MR. BLANCHARD: I have not a slide rule and I would not know how to use one if I had. Now going to page 45 and excuse me for my mistakes. You have a transportation cost of \$14,000 and your total cost of the Gas Purifying Plant is \$685,712?

A Yes, sir.

Q But you must deduct from that the Girbotol advance royalty because you do not pay transportation on that.

A That is true.

Q That leaves \$615,272 after the deduction of the advance royalty. The proportion that \$14,000 bears to that last mentioned amount is 2.1 per cent. I want you to go back again to the actual costs of Madison in their M-7A of 1.2 per cent and I ask you where the difference lies.

A I haven't any idea. I have never seen the Madison statement and I would not know without examining it.

MR. HARVIE: What page is that?

MR. BLANCHARD: It is M-7A, the first schedule.

MR. HARVIE: That is the relationship. That figure is not here at all. Your unit percentage is not here at all. I cannot follow it.

MR. BLANCHARD: You have to have a pencil and a lot of paper. I said they had to accept my figures.

MR. HARVIE: I was wondering if I was looking at the right place, that was all.

Q MR. BLANCHARD: There may be an explanation for it, I do not know, I am just asking.

A The only explanation I can think of is that the Madison submission includes contract work which was taken over by





Edgar G. Hill,  
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Gentry's and in this case of course the cost to Madison was a lump sum which would include all Gentry's costs. There would be no costs to Madison specifically for transportation other than what they paid to Gentry's and the Gentry's transportation cost would be included in his contract price. If that is the explanation, that is my answer. Otherwise I have no explanation.

Q All right. Perhaps it can be explained. Now your transportation costs in the three items I have mentioned are for personnel only.

A That is correct.

Q Now why did you include the moving of personnel in your unit costs for gathering lines and not in your unit costs in . . . .

A I did not make my valuation that way. That is the way I undertook to do my work, that is all. I could have gone back and done it that way.

Q Is there any reason for using both trucking and transportation of personnel in one unit figure and not in another?

A It could have been done the other way but I chose to do it the way I did. It could have been done the other way. It would have taken more time.

Q You have put me to a great deal of work. Now going to page 6 you have told me that the unit cost used in valuation included truck transportation?

A That is true and not of personnel.

Q But when you come to break down your unit costs in the recent additions to 59 you do include it.

A I think I covered my pipelines under a different paragraph and I say the unit prices of those pipelines still include that. If I am wrong . . . . I do not think I am.

Q Can you tell me please how your prices for pipe in your break-





Edgar G. Hill,  
Cross-Ex. by Mr. Blanchard.

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down, that is for F.O.B. prices would compare for instance with the price per ton for large lots in big gas installation jobs?

A It would be the same. The prices I have used are the lowest prices which, in my judgment, can be obtained by any purchaser.

Q What were the prices in 1937 to 1940?

A They were lower than those.

Q I suggest to you that they were around \$45 per ton, F.O.B. factory.

A Oh no. Oh mercy, no. There was one case . . . . .

Q That is plain end, for large jobs.

A I do not know anything like that.

Q For large jobs?

A Sir, I am speechless. I do not know anything like that. There was one case . . . . .

Q I do not know. I am just asking.

A It is not my experience.

Q My information is that recent jobs have been done and that pipe in very large lots for large installations such as the whole of Turner Valley, that the price of pipe has been, that is plain end, F.O.B. factory, \$66 to \$68 a ton.

A Now that is something like it. I will grant you that. That is United States prices. I know of one case where pipe was bought for less than \$50 a ton, back in 1937 and 1938.

Q I am giving it to you first of all that on large jobs the cost was \$45 a ton from 1937 to about 1940 and has risen in recent jobs from \$66 to \$68 per ton F.O.B. factory.

A Your \$66 to \$68 a ton for United States full mill prices at the present date sounds right. It may be a dollar or two high. The \$45 a ton might have applied in one or two instances back in the middle of the 1930's. I understood that pipe for an oil line built in Utah in 1937 and 1938 was bought for less





Edgar G. Hill,  
Cross-Ex. by Mr. Blanchard.

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than \$50 a ton but I have never bought pipe myself at that price nor do I know firsthand of anybody else ever having bought it that cheap.

Q I must apologise for what is probably my own ignorance about this but in looking at your break-down attached to Exhibit 59 you notice your notes \$144.12 per net ton, including mill inspection cost.

A That is right.

Q Add 5 per cent for screw pipe, that is under item A.

A That is right.

Q And B, \$172.80 per net ton including mill inspection costs, account light weight.

A That is the light wall pipe which the company used in some of its lines.

Q That accounts for the difference between those F.O.B. prices.

A In the first place, you are talking about United States F.O.B. mill prices. To that must be added freight, duty, war tax, sales tax.

Q And exchange.

A And exchange.

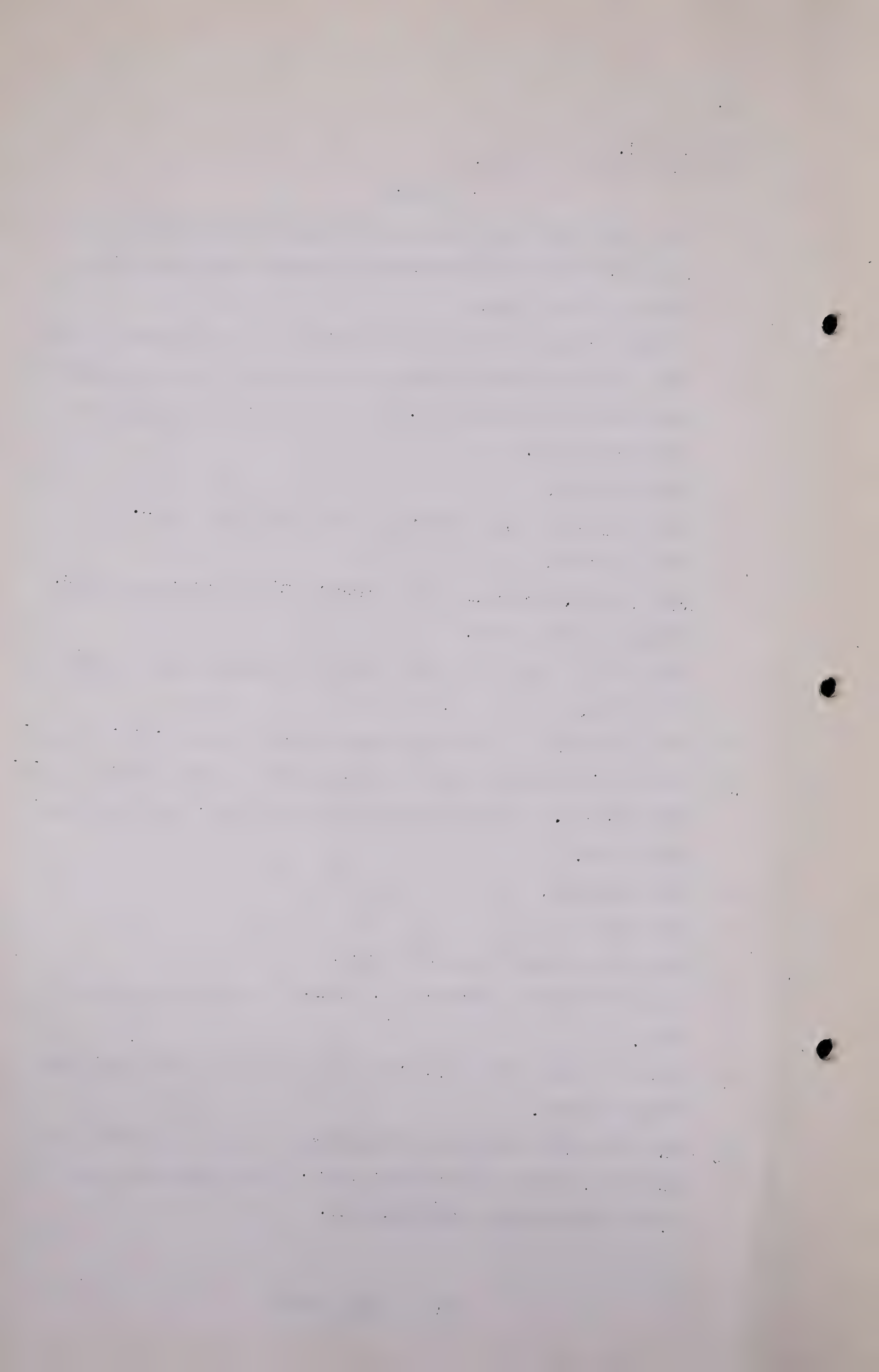
Q Does that absorb the difference?

A That absorbs the difference. You can readily check that.

Q Yes.

A From the Crane Company or any people here in town that know these things.

Q And I am just asking for information. You are probably quite correct. I have no doubt you are. I just wanted to know how it was broken down that was all.





Edgar G. Hill  
Cross-Exam. by Mr. Blanchard

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- Q Now you say that you have added 10% to pipe installations, - you have added 10% to pipe installations where they have been done by contract, for contractors' profits, is that right?
- A Yes.
- Q Well take your pricing on pages 27 and 28 and tell me what are contract and what are not, - wait a minute, pages 26 and 27, can you distinguish them without any undue trouble I mean?
- A Those are all, those are all contract prices, whether the Company bought the materials and contracted the labour at the prices which were developed.
- Q So that in no cases did the Company do this work through their own personnel, it was all done by contract?
- A You mean in the actual construction of the property?
- Q Yes?
- A It was all done by their forces except in 1944 they contracted some work to a United States contractor, that was after I made my appraisal.
- Q All right, so that notwithstanding that all the gathering line costs shown in pages 26 and 27 were costs incurred in laying pipe, the work performed by the Madison or rather then the Royalite personnel, you have added 10% contractor's profit, whether it was done by contract or not?
- A That is true, I did it but I did it simply to work out, - I am a contractor myself and I did it in the same method that I would have done it if I had been asked to bid on the system.
- Q That may be quite fair but I just wanted to know it?
- A I gave it those prices which were less than the Company was currently using or estimating for current construction costs by their own forces because they do not do work wholesale.





Edgar G. Hill  
Cross-exam. by Mr. Blanchard

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They will do most of the work, in most cases piecemeal.

Q I am not quarrelling with your statement?

A I know but I wanted to explain why I did what I did.

Q But I am asking that. Now all right. You have allowed 10% contractor's profit on all gas gathering line installation, correct?

A Correct, that is .....

Q In addition?

A On the labour but nothing on the material, just on the labour, nothing on the material.

Q And in addition to that you have added an overhead of 9%?

A That is right.

Q Why?

A Why, - because the overhead I have added has nothing whatever to do with the employment or not by a company of contractors. They are administrative and general overhead costs which are current regardless of the method which the Company uses to do its work. They are inescapable when a property is built.

Q All right, it is something, it does not include any part of the contractor's profit?

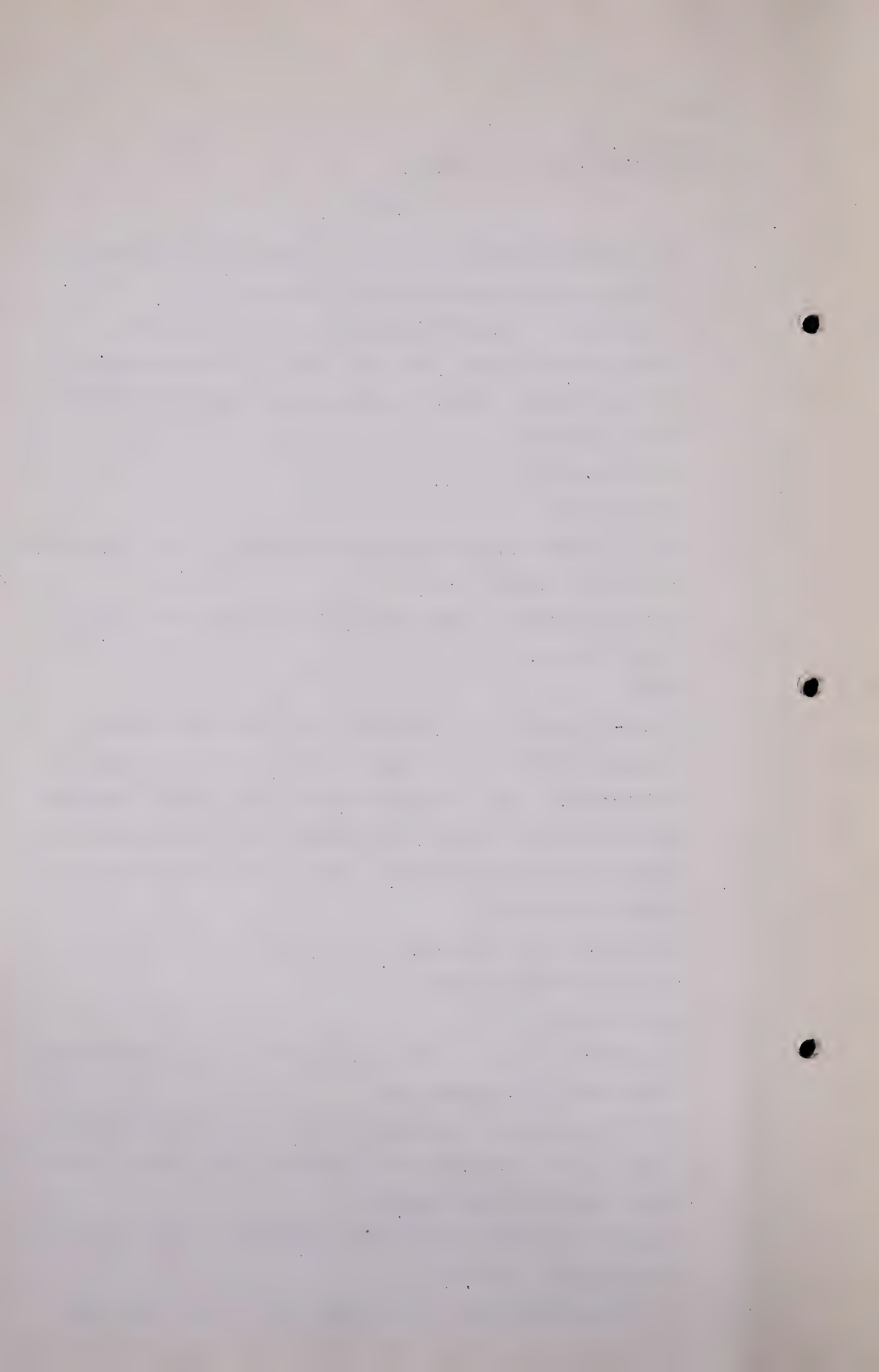
A None whatever.

Q DR. BOOMER: This contractor's fee is not in any sense then an overhead cost?

A No, it simply is a fee of 10% to the contractor who would come up here to organize the job and do the job for a fee but I added 10% for his work.

Q When you added 10% here as the contractor's fee, and the Company does the work.....?

A The Company does not do the work, not for these prices.





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Their costs in 1943 were higher than that. They were not doing the work in a wholesale method, they were doing it piecemeal, going out and laying two or three miles here, a couple of thousand feet there and they were not rigged up or equipped to do work on a wholesale basis or a large basis. I asked them what their work was currently costing them and they told me. They were using for the 1943 estimates these prices. I said "all right". I knew I could beat those prices doing it wholesale and I had their schedule of estimates of prices. I had them before I started to work.

Q MR. BLANCHARD: I suppose if that work had been done by a contractor his 10% would have included his over-heads?

A His over-heads yes, that is right,-- oh no, not his over-head, his profit. His over-heads, when I say "10% profit" I mean 10% clear gain to him after he is through. His over-heads are all paid, so I want to correct my answer when I said it was including the over-heads, no, it would not.

Q My friend Mr. Steer referred you to a half ton truck that is worn out and he asked you whether you had included it on page 68 of your appraisal?

A Yes.

Q What?

A I do not know, I do not know whether I included it or not.

Q I wondered whether you had ascertained that?

A No, it is immaterial to me whether a truck is worn out or had an accident. You see a year had elapsed from the time it would be required until the time I appraised it.

Q You give these trucks nine years of life in an oil field





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on your basis of depreciation?

A That is true.

Q Now is it not a recognized fact that companies operating in an oil field such as Turner Valley consider that, had put the basis of depreciation on their trucks at 33 and 1/3 per cent per year straight through, giving a life of three years, because of the hard work to which they are put?

A That was undoubtedly the Company's practice and may be now for all I know but now I know today or in 1943 for instance, you could use a car or a truck for five years and sell it for 40% at least of what you paid for it. I do not care how hard you used it so long as it was not wrecked.

Q It is a very small item in any event?

A A small item and I explained yesterday why I handled it in the way I did.

Q You suggest that a nine year life for depreciation, 20% the first year and 10% after that, is fair?

A I think it is under 1943 conditions because the Company could work on that basis if they wanted to. They can sell their cars at the end of five years for 40% and be within the ceiling.

Q You do not consider the suggestion of Madison based on past experience, that it should be 25 and 15 and 15, or rather 20 and 20 I should say?

A It is a difference of opinion there.

Q They have had experience in that particular field but you do not adopt that?

A I do not adopt it, no.

Q With reference to that truck, it is item 23 on submission M-8





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M-8 has not yet been made an exhibit but it is being put in, and Madison says this, "purchase of", it shows a purchase of a half ton truck in 1944 and it says: -

"Purchase of this half ton truck was in normal replacement of a unit that had become worn out in service, having travelled over sixty-three thousand miles."

Now I wondered whether or not....

A I do not know whether or not the unit had travelled over sixty-three thousand miles. I knew the number of it and from the number I could tell immediately what to allow for it.

Q It was not called to your attention?

A I saw those trucks, Sir, and they were, - I say "I saw them", I saw certainly three out of four, that is I know I saw three and I rode in most of the cars.

Q Did you drive the truck?

A No, I didn't drive the truck.

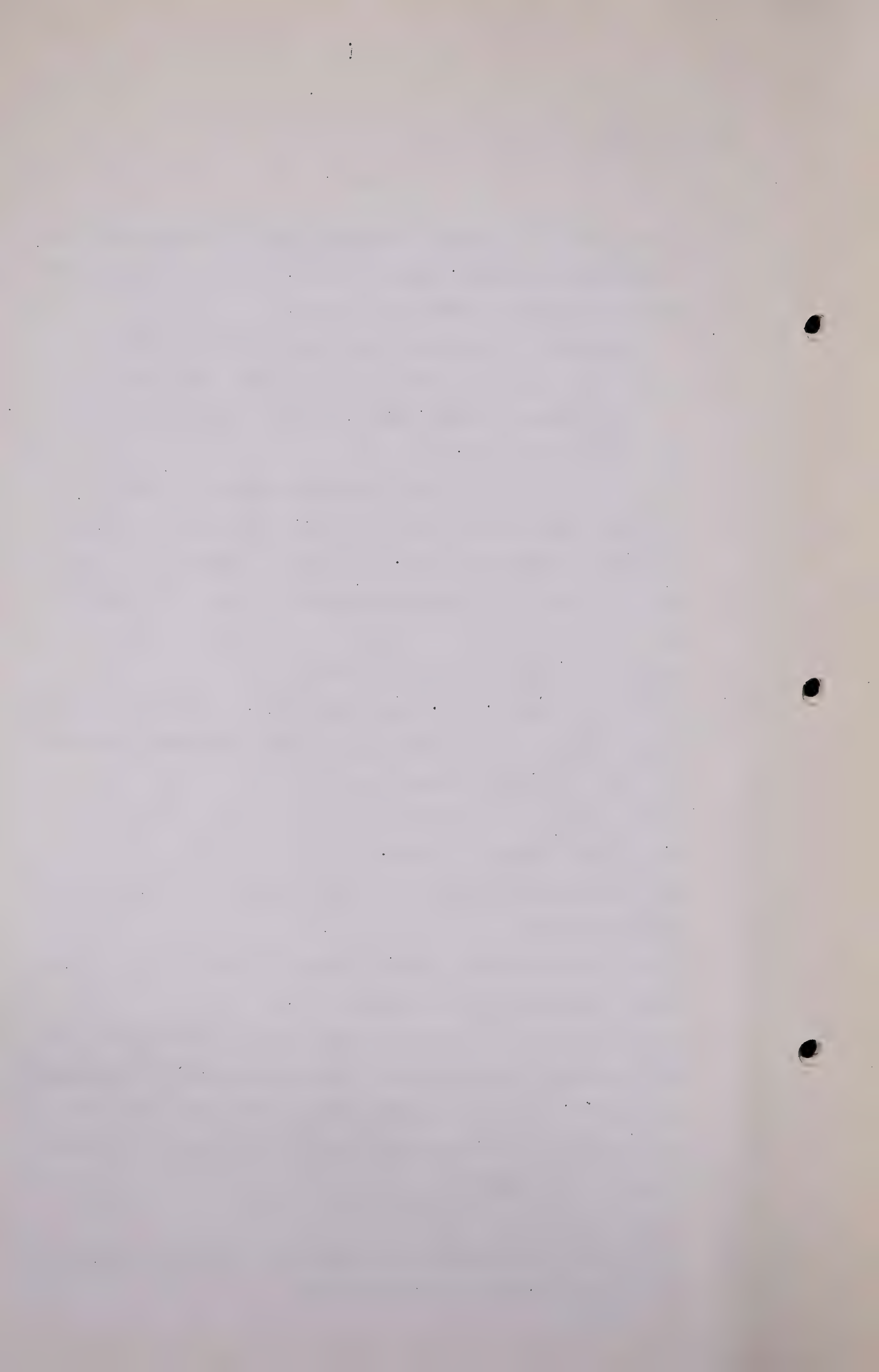
Q How could you tell how far a truck should be depreciated by looking at it?

A I tell these days by, whether or not it has been in a wreck and by its looks and the number of it.

Q I want to refer to page 10 of your report and dealing with the buildings which house the compressor units at Compressor Station No.1, you say the buildings will last as long as the machinery or at least the plant and you give the plant forty years of life?

A Yes.

Q So that the buildings and the equipment should be depreciated at the same rate, is that correct?





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A Yes, on a unit basis.

Q Well if you turn to page 32 you give the rate of depreciation that you have applied to the gas engines and the other items forming, comprising the units of the No. I Station?

A Oh yes.

Q And you have depreciated those at  $2\frac{1}{2}\%$  per annum?

A Yes.

Q Based on a forty year life?

A Right.

Q Yes, based on a forty year life and with reference to the first item on page 32, three gas engine gas compressors 5 years <sup>old</sup> and you depreciated them  $12\frac{1}{2}\%$ ; which is  $2\frac{1}{2}\%$  per annum?

A Yes.

Q Now then turning back to the preceding page on on which you valued the structures, that is the main compressor building, the water pump and cooler house, have you applied the same rate of depreciation to those?

A No, I did not for the main compressor building because part of that was built in 1941.

Q Oh yes, but part of the, - did you apply  $2\frac{1}{2}\%$  per annum, that is all I want?

A As I say I meant to, or approximately that.

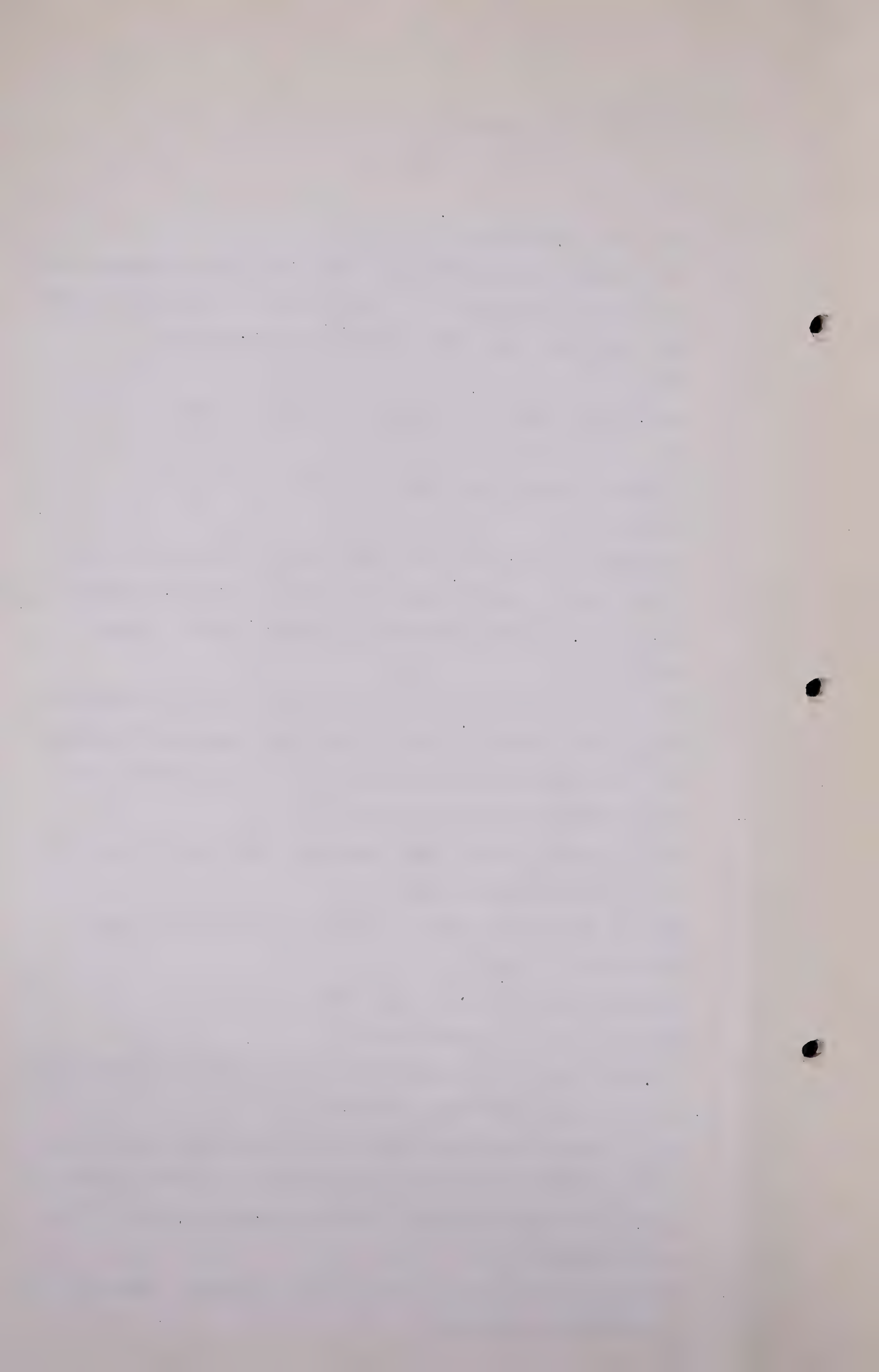
Q Well you mean you should have?

A I should have in the case of the water pump and cooler house.

Q And the main compressor building?

A No, the main compressor building was built two-thirds in 1938 and then in 1941 another one-third was added so that your depreciation would be a bit complicated there. It is easily figured.

Q Is not the same true of your station equipment, that part was 1938 and part was 1941?



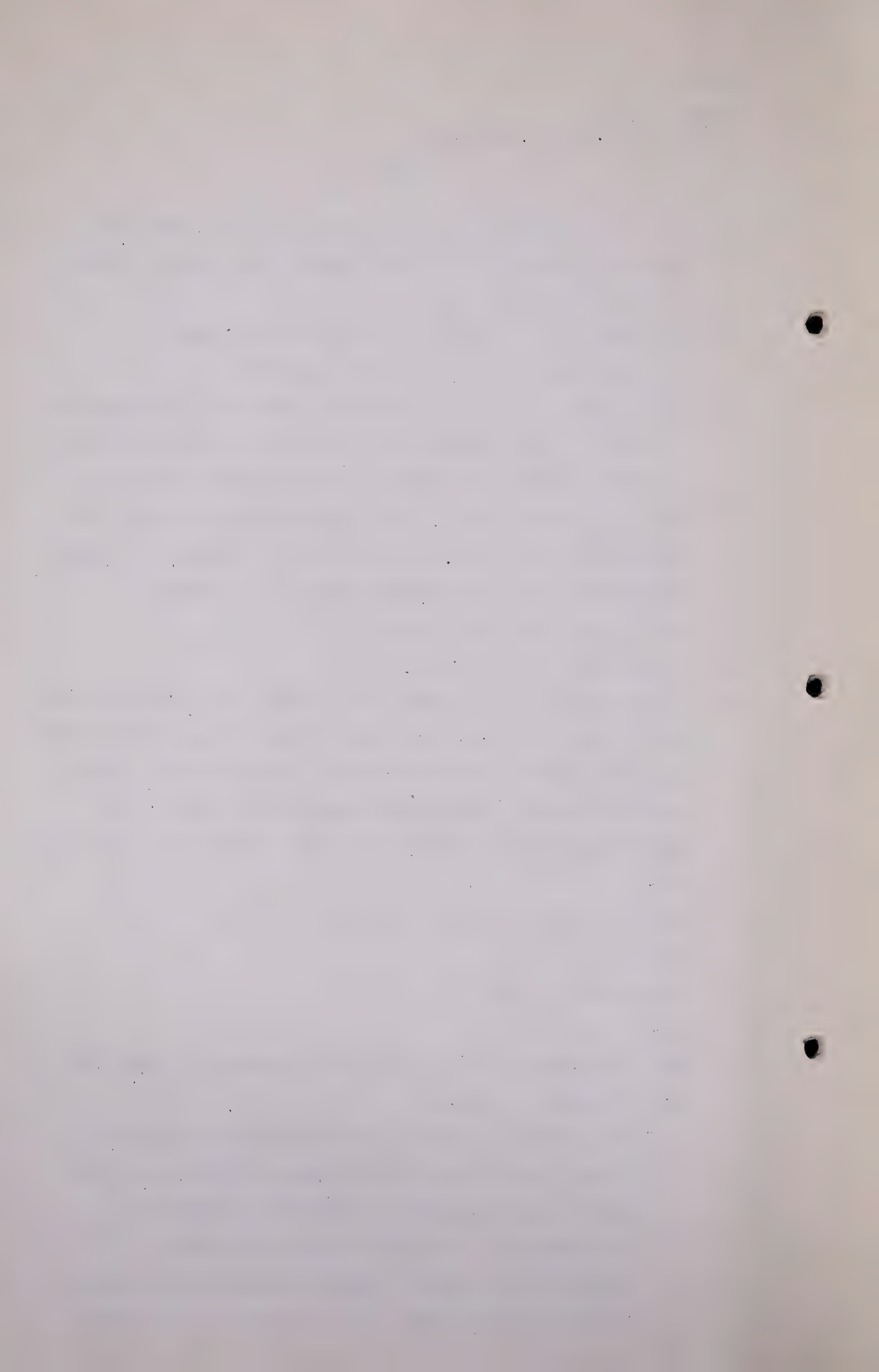
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- A Yes, and I depreciated it, what was put in in 1941, not quite as rapidly as I did the first period I do not think. You will see on page 32.
- Q They should be at the same rate of depreciation?
- A The same annual rate, yes and I would say ...
- Q Those installations are structures, they are all valued as a result of your observation and depreciated on the basis of their age and the remainder of their life expectancy?
- A That is generally true. There may be occasions here and there where I did not, where that rule if applied strictly would result in a few dollars out here and there?
- Q But by and large that is true?
- A By and large that is true.
- Q I want to refer you to page 46 of your report, and this may seem to you to be very minor details but I just want to know how you applied this depreciation, you have there, and my learned friend Mr. Steer dealt very fully with the gas purifying plant yesterday, and he did mention the fan house?
- A Yes.
- Q And I see you have given the value at 50%?
- A Yes.
- Q Depreciated it 50%?
- A Yes.
- Q Now I am looking again at Madison's submission, M-8, on page 12 and I see this: -

"The Fan House building at the Scrubbing Plant was erected in 1925 and is now obsolete in design. As now set up it presents a hazard which has been accentuated by the concentration of hydrogen sulphide in the stack vapours through the operation of the Girbotol unit. It was the scene of a fatal





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accident in December 1943. Plans to rebuild it have been held up by war conditions, but it is believed that the material required may be obtainable during 1945, therefore it is planned to proceed with the work at the estimated cost shown."

Now did you take that condition as I have just described it to account in making that valuation of the Fan House?

A No, because it was not obvious to me there was anything wrong with the Fan House. I have been in there a good many times and I knew nothing of the Company's intention to alter it when I appraised it.

Q Well having regard to what I have just read to you from the Madison submission do you think that your valuation is the proper one?

A I think it is proper, yes.

Q You still think it is proper?

A I still think it is proper.

Q Notwithstanding that it would be, that we would be charged in 1945 for a new plant?

A They are not going to build a new plant.

Q What?

A I do not believe they are going to build a new plant. They are going to modernize the present one and make some changes in it.

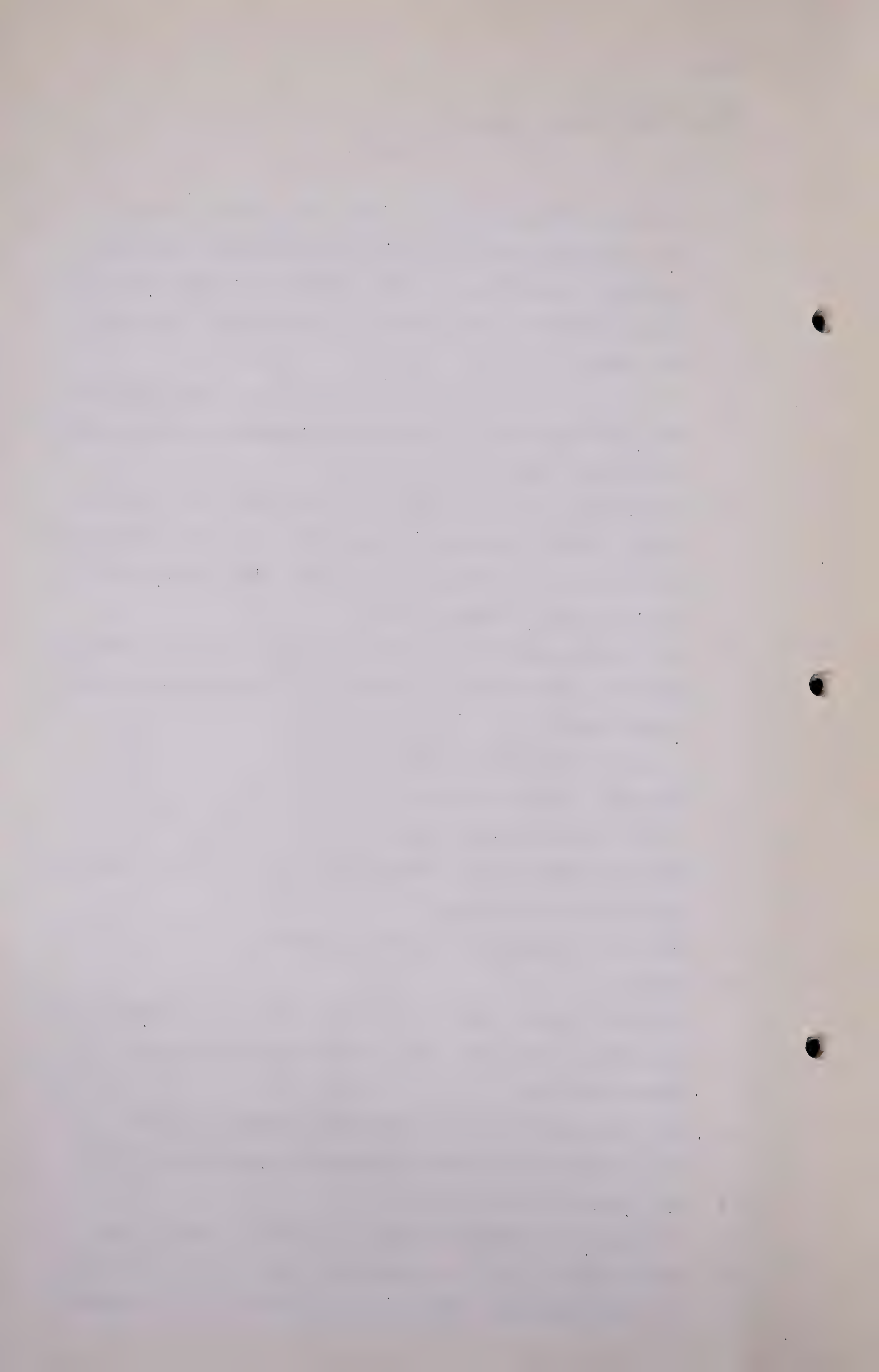
Q Well did you have this (indicating submission M-8)?

A No, I have not seen any of Madison's submissions, Sir.

Q Did you know it was obsolete?

A Oh no, no, of course I didn't and I don't know it now.

Q Well if it is, if it was obsolete, what have you to say, is that a good valuation on your page 46 if it is obsolete?





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A I am satisfied with my valuation at the date I made it, that it was a proper one.

Q Do you take into account obsolescence in any part of your valuation?

A In this valuation I did not take into account obsolescence.

Q Do you take obsolescence into account in any part of your valuation?

A Speaking of valuations.....

Q Anywhere?

A Anywhere.

Q Anywhere?

A Yes.

Q Where?

A In Ohio.

Q No, I mean in your present appraisal?

A Oh here.

Q Yes, have you considered obsolescence as forming any part of your depreciation?

A I considered it when I valued the Girbotol or rather the Seaboard Plant because I gave it a heavy depreciation.

Q For obsolescence?

A Yes, it was for obsolescence because it is a much heavier depreciation than is warranted by any physical condition of the plant.

Q All right. Now your appraisal does not contain or include any estimate for salvage?

A No Sir.

Q Have you made any such estimate for your principals that has not been submitted?



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A No Sir.

Q Assuming that the remaining economic life of the gas field in Turner Valley is 25 years, would you now be prepared to give an opinion as to the salvage value of the various installations and structures?

A It would be my judgment that a proper allowance for salvage value under those conditions would not exceed 5% of the cost anyway.

Q Does that apply to every description of the structure or installation?

A Yes, that includes everything. That applies to the property as a whole, that is if we had a two million and a half dollar property and we were now estimating the salvage value twenty-five years hence, a 5% allowance would be proper.

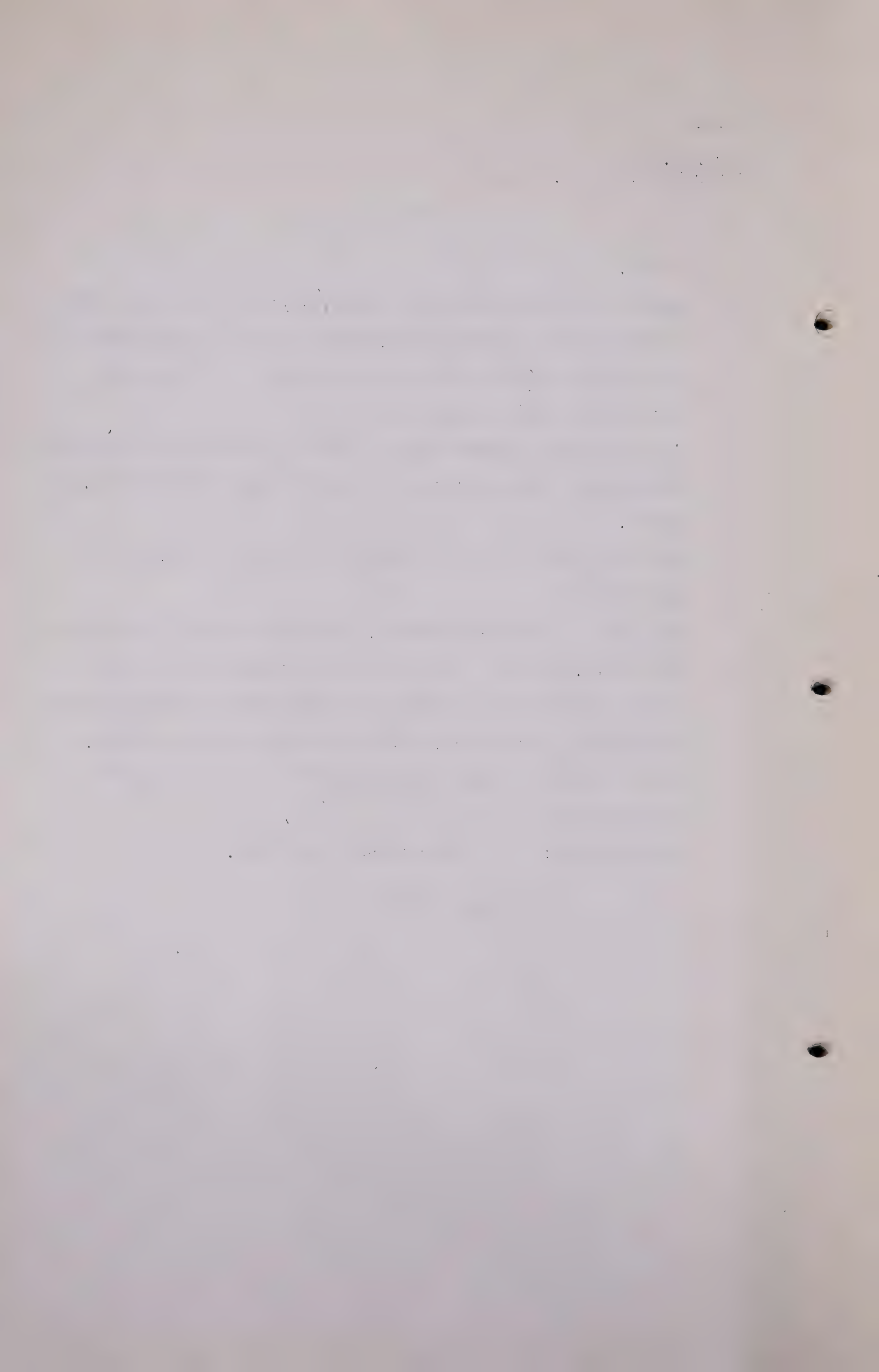
Q And you would say that would apply to the compressors?

A To everything.

MR. BLANCHARD: Everything, all right.

(Go to page 1712)





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Q Now then, is it because it was such a small factor that you did not include it in your estimates?

A I have never known an estimate of salvage value to form part of the valuation of physical property, unless one is asked by his client at that time to make it.

Q I see, but you say 5% would be right?

A I think that would be a fair basis, that is at this time. We are guessing at something 25 years away.

Q Well, you see what I am getting at is this, that the salvage value is a very substantial factor, and it should be deducted from the valuations for rate base purposes, should it not?

A Oh no, of course not, that means that the Company would lose its return and depreciation on all of that, whatever part of that property is set aside for salvage, it would be just sitting there and the Company would not get anything for it.

Q I see?

A No, that is not right. The salvage comes in when you are getting out your amortization allowance.

Q I see. Well then, on your throughput on the basis of depreciation, if you do not include the salvage factor it means that the Gas Company or consumers have paid in full for the structures and installations and yet there may be substantial salvage at the end?

A No.

Q Well what?

A You see the Company - we will say the Company puts a plant in this year and spends a million dollars for it, it is entitled to a return on that million dollars, because it has been spent, it is there. Now at the end the Company





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will salvage some part of that million dollars.

Q What does it do, return it to the consumer?

A No. The consumers do not own it, the Company owns it.

Q But they have paid for it?

A No, they have not paid for it, they have paid a return on it because the money has been spent there. The money has been spent.

Q But they have also repaid the capital cost in full?

A No, they have not.

Q Why have they not?

A Because when you figure your amortization allowance you make a deduction for salvage, and the amortization allowance is arrived at by dividing the original investment less your estimated salvage by your gas reserve to get a unit retirement allowance.

Q At what date do you take off your salvage for amortization purposes?

A When you make your amortization allowance.

Q But you have to know it to do it right at the start?

A Yes, and you are asking me what my opinion is, and I have said 5%.

Q You say 5%?

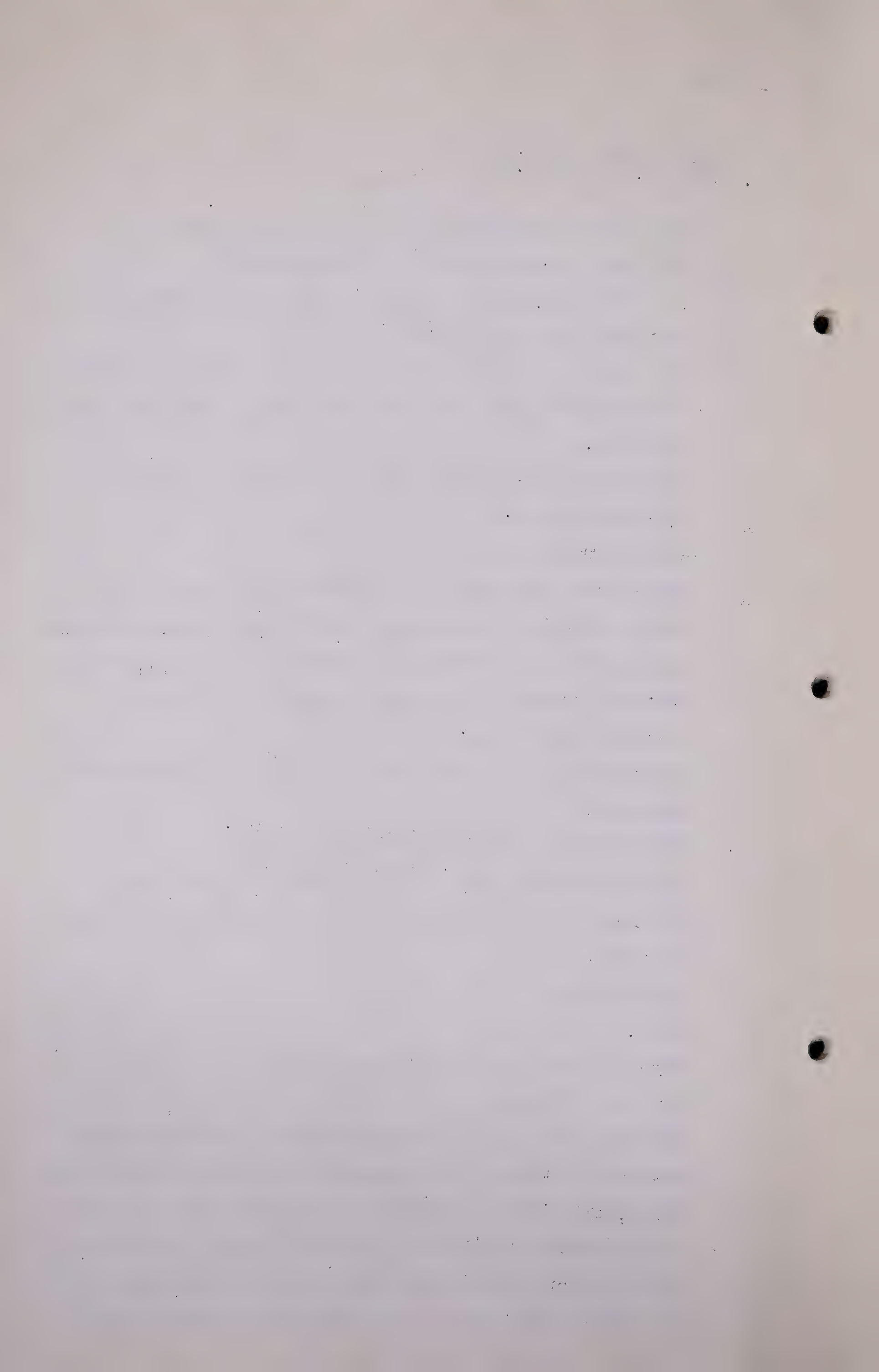
A Yes.

Q That is assuming this field has a life of 25 years?

A Yes, that is right.

Q And would that 5% in your estimation be the reproduction cost new at the end of 25 years less observed depreciation?

A Sir, this is just a wild-eyed guess what we will get for the property at the end of its useful life. It might be 5% or 4 or 6, whatever the markets are at that time, and whatever the need of that property is somewhere else



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will determine what the Company will get for it.

Q Now just a moment. In dealing with you are prepared and you recommend that it be put on a unit basis?

A I do.

Q So that the last thousand feet of gas pays for the last dollar of investment?

A Yes.

Q That is right is it?

A Yes, after deducting salvage.

Q Well, all right. We have not got a salvage figure yet, that is what I am trying to get, Mr. Hill. Now then, at present in your present valuation you are not dealing with it on a throughput or unit basis for <sup>accrued</sup> depreciation, you are putting it on a reproduction cost less observed depreciation?

A Yes, that is right.

Q And on that basis you are only charging after depreciation, so far as gathering lines are concerned, you give them a remaining life of 50 years, and the compressor station No. 1 40 years, and the No. 3 station, with the exception of certain units that were moved from the No. 2 absorption plant, 40 years. Now I believe you have indicated as a result of your inspection of all the structures and installations, that you found them in a condition exceptionally good for their age?

A Yes.

Q Taking it all the way through?

A Very well maintained.

Q Exceptionally good except that you want to allow something for that in your going value?





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A Well, all right, yes sir.

Q All right. Now with that satisfactory condition to go on you have already said you have based your figures for depreciation on the age of the structures and installations in relation to their expectancy of life that you said a little while ago with the exception of a few items, that is correct is it?

A Yes, that is correct.

Q That is correct?

A Yes.

Q All right. Now I want you to go to Page 10 so that we will be together on it. On this Page 10 of your Report, Mr. Hill, you give No. 1 Compressor Station 40 years of life, correct?

A Correct.

Q The No. 3 station with the exception of some items which I have referred to.....

A They are minor.

Q Minor items?

A Yes, minor items.

Q 40 years of life?

A Yes.

Q And you have already given the gathering lines 50 years of life?

A Yes sir.

Q And it is on that that you have based your present accrued depreciation?

A That is right.

Q That is right?

A Yes.





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Q Now let us go to your gas gathering lines, your total valuation on Page 27, that is you have a present value of \$565,551.00, is that right?

A That is right.

Q You estimate that they will last for 50 years or more?

A Yes sir.

Q And then at the end of that time, that is, at the end of the economic life of this gas field, 25 years, only half of that life expectancy is gone, am I right about that?

A If 25 years is the expectancy of the field from the date of my valuation, your statement is correct.

Q On the basis of your valuation my statement is correct?

A Yes.

Q Only half of its life expectancy has disappeared?

A Yes.

Q When the field has gone?

A If the field is gone in 25 years from 1943, then your statement is correct.

Q That is correct?

A Well we have got to assume that, yes sir.

Q And that would leave your value on your basis of observed depreciation of half of \$565,551.00, or two hundred and eighty-two thousand odd dollars?

A I would have to figure and check you, but I know it would be substantially less on that basis.

Q No, I am speaking on the basis of your present value?

A Well let us see. I am assuming that the lines are seven years old, that they have 25 years to go, we have an over-



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all life of 32 years. The present condition would be 7/32nds of new, and the depreciated condition would be 25/32nds of new, so that to get our depreciated value on that basis you would multiply \$599,384.00 by 25, and divide it by 32.

THE CHAIRMAN: Would you not divide it by 57?

A No, in my basis for depreciation my lines are seven years old, seven years of their useful expectancy has gone, and still 25 years to go, and it gives a total life expectancy of 32 years, so that mine is 25/32nds of my original value.

Q MR. BLANCHARD; I think we are at cross-purposes?

A I do not think so because I do not agree with your statement.

THE CHAIRMAN: You are relating it to the life of the lines in use?

A In use.

Q For 32 years?

A Yes.

Q But what Mr. Blanchard is getting at, they have been in use for seven years and they have got a 50 year life left, is that right, Mr. Blanchard?

MR. BLANCHARD: Yes. I am using his same measures of depreciation for the future, as he has used for the past, I want to be consistent.

A Well, I would say on the basis of your assumption of 25 years future life.....

Q On the basis of a 50 year future life?

A On the basis of a 50 year future life?

Q Yes?

A Then on 50 years' future life basis my depreciation would be lower than that because I only took 5.52 which you said a moment ago is equivalent to 100 years' life.

Q Perhaps I have not made myself clear. Let me put it this





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wa and I will try to make myself clear. On the basis of your appraisal you have valued only one factor in coming at your depreciation and that is the percentage that the age of the structure bears to its total life expectancy from its beginning to the end of its life, that is correct?

You have said so?

A That is correct.

Q All right.

THE CHAIRMAN: And omitting whether Turner Valley has one year or 100 years to go?

A Yes.

Q MR. BLANCHARD. Yes. That is the basis on which you are allowing depreciation to date?

A That is right.

Q And if you follow that through, then at the end of 25 years you still have a 50% life left, that is 50% of your depreciated value of \$565,000.00 left at the end of 25 years, that is the situation?

A That is approximately so.

Q That is approximately so?

A I would like to have a chance to check it.

Q So that there is \$282,000.00 that that should be worth at the end of 25 years if your method of observed depreciation should be applied and your basis is correct.

A But as I say I do not agree with you on that. However, I am willing, I may be wrong, and I would like to have a chance to think it over and tell you after lunch or the next time we meet.

Q I would be very glad to have you tell me at any time because I am only seeking information, Mr. Hill. You understand my point here do you not?





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A I understand your point and I perfectly agree that under your assumptions my depreciated value of the pipe lines.....

Q Yes?

A Is not right, but I do not want to agree with your figures without I have a chance to check them.

Q Well then, let us check them. I want you to have every opportunity. Now what I am getting at is this, if I am right, at the end of 25 years there is \$282,000.00 of a value left in those pipe lines on the basis of your present appraisal?

A I would say that was probably substantially correct.

Q But you say that if the gas field is done at the end of 25 years, you are only going to give them a salvage value of 5%?

A That is true.

Q That is true?

A Yes, that is true.

Q All right. What depreciation factor has operated to make that great difference?

A The depletion of the field.

Q The depletion of the field?

A Yes.

Q All right. So that is a factor to be taken into consideration, depletion of the field, when you are depreciating assets of a utility of this kind?

A That is true?

Q And have you taken that factor into account at all in your depreciation to date?

A Only as the estimated life of the various items of the property happens to coincide with whatever life of the field may be agreed upon or chosen by the Commission.



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Q Quite. If the life of the field is only 25 years, you have not taken the depletion factor into account at all.

A That is true.

Q In your present appraisal?

A That is true.

Q That is correct?

A That is correct.

Q All right. And the same is true when you get to the No. 1 compressor?

A That is true.

Q And if you want to check figures I will give them to you now?

A It is true all the way through, you can go all the way through.

Q Very good. And my suggestion to you is that on the basis of your valuation, using observed depreciation as you have done, that the value at the end of 25 years of the No. 1 compressor station would be \$119,310.00, just if you make a note of it, you want to check my figures.

A Well I am not supposed to quarrel with your figures, because at the end of 25 years the value would be approximately 25/40ths.

Q Now just a minute. It would be if you used a depletion allowance up to date but not if you are applying your own basis of appraisal?

A I do not know, of course, how much gas that station pumped in the two or three years it lived.

Q I do not care how much it pumped. I am asking you on the basis of your present appraisal whether that would be the value at the end of 25 years, leaving out of consideration when the gas field is going to end?





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A Well if you will let me at recess check that I will be glad to answer it.

Q And I will give you a figure for No. 3 compressor station too?

A No. 1 is what?

Q No. 1 compressor station is \$119,310.00 at the end of 25 years, based on your present appraisal methods?

A Yes, all right.

Q And No. 3 is.....

A No. 2?

Q No. 2 has been abandoned. And No. 3 is \$59,256.00, or a total under those three headings of \$460,566.00?

A \$450,000.00?

Q \$460,566.00 is it not? No, I may be wrong about that. Well we can add them up anyway, the three items.

A What was the pipe?

Q The pipe was about \$282,000.00?

A \$282,000.00?

Q Yes, and we take those three items.

A Yes.

Q And then No. 1 is \$119,310.00, and No. 3 is \$59,256.00.

No. 3 is after taking off those items that do not have a 40 year life. So that I say the total value of those three departments on the basis of your assumption and your present methods of valuation, at the end of 25 years will be \$460,256.00?

A Yes.

Q Now, if that is correct, should it not be taken into account at this time in fixing the amortization in connection with the, the amortization of capital costs?

MR. CHAMBERS:

Pardon me, are you referring to the





amortization in the future or the past or both?

MR. BLANCHARD: In the future.

Q It is \$460,000.00 if your method is correct?

A If this Commission fixes the life, the future life of this field at 25 years.

Q No, please, do not put it at 25 years future life at present. Leave it on the basis that you say of 40 to 50 years. I say at the end of 25 years on your basis of valuation there is \$460,000.00 left value in those things?

A All right.

Q That is what I want. If I am wrong about that I would like you to correct me later and I say that if that is so then that must be taken into consideration now.

A Yes. That is if the depletion is to reduce the life, the useful life of this property below what it would normally live where the field would last you might say indefinitely, then a correction should be made.

Q Yes, exactly.

A I said that yesterday I think.

Q The point is this that if the field does end in 25 years at which time you say 5% salvage would be fair to expect on the depletion of the field, then there arises a factor that you have not taken into consideration at all in your method of arriving at the accrued depreciation. I am right about that am I not?

A Yes, you are. No question about it.

Q Your accrued depreciation to be fair should have been on the through put basis or unit basis year by year from the time the installations were made to take care of that depletion factor.

MR. HARVIE: That should be observed depreciation.

MR. BLANCHARD: Will you read my question?



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(By the Reporter reading) "Your accrued depreciation to be fair should have been on the through put basis or unit basis year by year from the time the installations were made to take care of that depletion factor."

MR. BLANCHARD: I am content with the question. That is correct is it?

A My appraisal was made on the basis of observed depreciation, translating the observed depreciation into the remaining useful life.

Q And if that remaining useful life exceeds the remaining life of the field then an adjustment must be made in your valuation to reflect that situation or it must be done on depletion, to give effect to the depletion factor?

A Yes.

Q You do not want future users to pay all the depletion. that the past users have had the benefit of?

A Well past users have had the benefit of the pipe line and I think that I have reflected that use in my depreciation allowances, but they did not give effect to any depletion.

Q All right, that is all right. I just want to ask a few more questions Mr. Hill and one is with reference to working capital. Now I assume that all parties want to save as much cost in the future as possible. You want to save, you want to put it on the fairest basis possible to save money. Both sides, all sides. That is correct is it not? Now I believe that on Monday when I was absent you said that if the payments to producers for gas were fixed by the Board to take place after the receipt by Madison for the gas had been made that that would eliminate a lot of your working capital required.





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A It would eliminate \$40,000.00 roughly.

Q Which would bring it down to approximately \$150,000.00?

A In round numbers, yes.

Q Of which \$90,000.00 odd is for inventory?

A That is true.

Q Leaving about \$60,000.00 for other working capital?

A Yes sir.

Q Now that other working capital would be such things as wages accrued during the first six months of the year would it?

A Six weeks.

Q Six weeks, I beg pardon, yes. Six weeks wages.

A It is normal running expenses.

Q Normal running expenses and wages would be a big item?

A They would be.

Q A big item, yes. Now perhaps this is an absurd suggestion but suppose we assume that all profits of the Madison are to be distributed at the end of the year, at the end of each year and a rate of return based on a full year. Let us assume that the profits are to be distributed at the end of the year and dividends declared at that time. Do you think it would be unreasonable to defer the actual payment of the dividends for a period of six weeks?

A I think the Company is entitled to pay its dividends quarterly.

Q Suppose they paid a reasonable rate of interest to their shareholders for that six or seven weeks. You see what I am getting at it saves the Gas Company and ultimately the consumers from paying at the rate of return asked for, 15.56% on \$60,000.00 per year. I am wondering whether it would not save money all round if you deferred payment of the dividends for a period of six or seven weeks and eliminate that amount?





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- A I do not understand how you figure the 15.56% on your working capital. There is no amortization on that.
- Q There is a rate of return?
- A Yes, but we are not asking for 15.56% return.
- Q You are surprised at that are you?
- A Yes.
- Q I am too. It may be fair, I do not know.
- A Well I do not know.
- Q It includes income tax you see?
- A All right.
- Q That includes income tax. That is  $9\frac{1}{2}\%$  plus income tax. Now if you just simply deferred the payment of your dividends you would not be paying income tax on this rate of return on \$60,000.00?
- A Well I am not in any way connected with the management of Madison and I do not know whether any such scheme of deferring payment of dividends would appeal to them or not.
- Q I wonder if it could be done. You see Royalite is the receiver of the dividend payment and I was wondering whether they would accept the bank rate of interest for a few weeks?
- A I do not know. I cannot answer your question intelligently.
- Q Well perhaps they will?
- A Maybe they will.
- Q Would you think that unreasonable to ask them to do?
- A I do not think it is unreasonable to ask a man to do anything.
- Q What?
- A To ask a man to do anything. It is all right to ask him.
- Q There is another way perhaps it might be approached. Do you think it improper, or do you not think it is proper that the Company should use its credit at the Bank for a short



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period of time rather than impose 15.56% rate of return on \$60,000.00 the year round. The whole year round?

A I think that is a matter for the Commission to decide and I have no opinion to express. It is something I have never done except I had to. That is as an operating manager I have never gone to the Bank unless I had to. I have yet to read a Commission decision that - -

Q May I say this - -

THE CHAIRMAN: Mr. Hill has not finished his answer.

A I have never yet read a Commission decision that would force us to do that but as I say there is no harm in asking.

Q MR. BLANCHARD: That is what Banks are there for they tell me. I have never known it from my experience.

A This is new to me all right.

Q I am informed that 15.56% return on \$60,000.00 amounts to \$9500.00 a year that the Gas Company or the consumers will have to pay to provide this \$60,000000 for a period of only six or seven weeks a year. Now under those conditions since you yourself have proposed that there be certain working capital provided?

A That is right.

Q Don't you think it might be proper to borrow that money from the Bank during this period or let Royalite wait for its dividends?

A I think that is a matter which the Commission will have to decide. I am not part of the management of Royalite or part of the management of Madison.

Q Well I only asked you the question because you have set up in your return a certain amount.

A I have set it up in accordance with the usually accepted





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methods.

MR. STEER: I am sure my friend will not mind me suggesting that he is going on an assumption that I cannot agree with and that is that the consumer and the Gas Company are going to pay these charges.

MR. BLANCHARD: I should have said some of them.

MR. STEER: Some of them possibly.

Q MR. BLANCHARD: Now my learned friends Mr. Fenerty and Mr. Steer asked you something about going value. I think your answer was that one of the factors in this \$200,000.00 was the efficiency with which these installations had been made and carried out?

A That is true.

Q Is not that factor given effect to in your low depreciation?

A Possibly to some extent.

Q To what extent?

A Well on the pipe line the fact that the Company has coated its lines with a protecting coating has unquestionably contributed to their present high condition. Now on compressors of course the stations are new and they are in good shape and are maintained. I do not think that my appraisal on those new units would have been very much different, in fact they are taken practically at the new price regardless of the management. If the condition of the scrubbing plant reflects good management I think that other than brand new things, yes my condition does reflect the care given to that equipment by the management.

Q Yes. So really that is reflected in your depreciation, lower depreciation?

A On the basis which I have computed the depreciation there may





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be some reflection there.

Q Well if it had not been efficiently installed and efficiently cared for you would have allowed for that in the depreciation figures would you?

A Yes, I would on some of the items that had some age yes.

Q Another factor I think you take into consideration is there has been no cost of financing?

A True.

Q Nothing charged for financing. If there had been charges for financing, in other words if this had been a company without friends to start with you would have charged for it?

A I would have, yes.

Q They did not have to do that but you are going to charge for it anyway?

A I am going to ask the public to pay part of the cost which was saved to this Company by reason of its strong sponsorship.

Q And I suppose the greatest factor is that they have a ready made market, that they have got consumers of the gas?

A Well I know that to be true but I did not consider that specifically.

Q What?

A I did not consider that specifically.

Q Is that not the most important part of a going concern value, the fact it has got a business?

A It is an important part.

Q And forms part of your \$200,000.00?

A I did not consider it in getting at my \$200,000.00.

Q You did not?

A No.

Q You speak of the strong sponsorship by Royalite, the parent Company?



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A And again by Imperial and again by S. O. of New Jersey.

Q They would not have sponsored anything if there had not been a market for the gas?

A They would have made a market if there had not been one.

Q They had a market but would they have sponsored Madison if there had not been a market at all for this gas?

A When the Royalite started before Madison they made a market, it was not to sell gas but to dispose of the gas and sell the products and as soon as they came into the market they got one.

MR. BLANCHARD: That is all.

MR. FENERTY: There are some questions that I want to ask Mr. Hill. I mentioned at the outset that I would like to follow the other examinations. Were you proposing to sit through today.

THE CHAIRMAN: That will depend. Mr. Chambers is Mr. Hill leaving today or will be here for some time?

MR. CHAMBERS: I may want him here after hearing evidence that the Gas Company is going to call. If that witness is not called until later Mr. Hill will not stay.

MR. FENERTY: I might say that if the subject matter I intend to bring up now, if my views are accepted it is going to mean that Mr. Hill is going to be here longer now or at a little later time <sup>that is the</sup> and / reason I asked whether you intended to sit through today or whether you intend to take an adjournment.

THE CHAIRMAN: We will adjourn in a couple of minutes. Perhaps we had better do it now.

MR. FENERTY: I am not going to be through inside a few minutes I am afraid.

At this stage there was a short adjournment.





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(After adjournment)

THE WITNESS: I checked, Mr. Blanchard, and I have no quarrel with those figures, that is if I had, if we continue the same rates of depreciation for 25 years from November 15, 1943 that I used in my appraisal, you would have depreciated values, - not salvage values, - at the end of the 25 years about as you say.

MR. BLANCHARD: Thank you.

THE CHAIRMAN: Mr. Fenerty?

CROSS-EXAMINATION BY MR. FENERTY:

Q Mr. Hill, I gather from the evidence which you gave in chief to Mr. Chambers that you have had a fairly extensive experience in these Royallite operations in this Turner Valley field over a period of years?

A I have had experience to this extent that I have seen all of the properties or substantially all of them which are owned and operated by The Valley Pipe Line Company and the Masison Natural Gas Company but I have had no contact with their operations. That is I know the operating people but I have had no contact with their operations, I have not advised or guided them or done anything but simply looked at them.

Q Yes, but you were here I believe in connection with the Valley Pipe Line operations?

A Yes.

Q In connection with the McGillvray Commission and Inquiry, some years ago?

A Yes, I made an appraisal of the Valley Pipe Line Company and testified regarding it.

Q And were you also here in connection with the Pipe Line





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Inquiry several years ago, were you on that?

A Well I was here in 1939 and in 1943 and I appeared for a few minutes and testified about price changes since 1939.

Q Yes, and these latest inquiries and valuations that you made, I think you told Mr. Steer were on the original instructions, the original instructions were from the Royalite?

A In 1943.

Q From the Royalite Company?

A They came from Mr. Bimel, Fred Bimel in Toronto who is Chairman of the Board of the Valley Pipe Line Company, he is an Imperial man.

Q And my understanding is that there has been made available to you and you have had access to any books or records which you thought you required in order to make your valuations and to make any report which you wished to present to this Commission?

A Anything I asked for I always got.

Q Yes, and you remember I think, that you refer in your report to the experience of the Royalite or the Imperial Company in this field over a period of years as being available to the Madison Company?

A That is true.

Q Being an element of value to them?

A That is true.

Q And I think you intimated, and I do not remember whether it was in the report or on the stand, that those conditions would continue, did you say something about that, about them being available to the Madison Company in the future?

A They would be available, as long as, I am told as long as the ownership stays as it is, there will be no change in



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relationship.

Q Yes. Now with that in mind, the experience, part of the experience of the Royalite Company, the part that you have been referring to have been the operations in this field over a period of some years?

A Yes.

MR. HARVIE: I am having difficulty in hearing you, Mr. Fenerty.

MR. FENERTY: I am sorry, I will try and speak a little louder.

Q MR. FENERTY: Now I find a statement here on page 19, the beginning of it:

"The Natural Gas Division of the Royalite Oil Company Limited has been in successful operation since prior to 1927."

I gather you have made that statement as a result of the information that you have had made available to you?

A Well I knew the Royalite Company was operations in Canada prior to 1927, yes.

Q Yes, but you do not make a statement that that was a successful operation just in the air.

A No.

Q I say it is as a result of, it is a considered statement?

A Yes.

Q And it is a result of the information that was available to you?

A Yes.

Q And that is part of the experience of the Royalite Company





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that has been operating successfully in the field, which influenced your going value figures here?

A Yes.

Q And you have included it as an item of the cost of something that somebody should pay for?

A That is true.

Q Yes. Now I suggest to you that that experience in the successful operation might be equally valuable to this Board in deciding on recoverable costs, that is all is it not?

A Yes, the experience that is, it has .....

Q The success of an operation depends among other things on its costs, does it not?

A Yes.

Q Its costs and its returns?

A Yes, its general success you might say.

Q Now I wonder, my idea, I am going to give you my idea of a successful operation and I am going to ask you if it corresponds with your own; I suggest to you that a successful operation from a commercial point of view is one which will provide for operating expenses, full reserves for depreciation and depletion if it is a case for depletion, and for some reasonable profit which would be reflected in the way of dividends, is that a general picture of a successful operation?

A That is a general picture, yes, of a successfully operating concern.

Q And if that is your conception of a successful operation I take it that that is what you meant when you said here:

"The Natural Gas Division of the Royalite Oil  
Company Limited has been in successful operation  
since prior to 1927".





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Am I right?

A That is a correct statement, yes, that is the correct statement, as I said in my report.

Q Well now, I see, now then I want to ask you to give some details of how you arrived at that statement that this was a successful operation, because I might not agree with you, you see, and that is what cross-examination is for, to find out if the statement is correct?

A Yes. Well the Company has developed, The Royalite Company, to go back, has developed a great part of the Turner Valley field for gas and oil. Its operations have grown. They have supplied the Calgary market as a growing market. They have done it successfully so far as I know without service interruption. They have spent money here in building a plant of the kind and character required to meet the demands of the service and they have adequately staffed it.

Q Yes, but I interpret your statement in the light of the definition that we both agree to, as a statement that the Royalite Company since prior to 1927 in connection with its gas division has provided for operating expenses, for full depreciation and depletion and some dividends, is that not what you have told us?

A I would certainly assume that that is correct, yes, it has been a successful operation, I do not know, I do not know the actual dollar profits which the Royalite has made in this gas division for any particular year.

Q You say you assume that?

A Yes.

Q Well you see I am not willing to assume it?

A Then you will have to ask somebody else besides me, what



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their dollar profit was.

Q And you have told me that you have had made available to you any data necessary to back up your report, whether they were assumed or otherwise?

A That is right.

Q Now I want to go into that statement at some length and ask you to produce the data and make it available to us?

A I can give you the data which I have but I have no data showing the profits of the Natural Gas Division separately from the Royalite Company.

Q I see?

A Nor do I have the operating statements of the Royalite Company here.

Q Well now have you considered and have you had available to you any figures indicating the division of the operating expenses between the Gas Division and the other divisions of the Royalite Company?

A No I have not.

Q Would you make them available to me?

A I have not, I cannot make them available. You can get them from the officials of the Company.

Q They were available to you I take it?

A They would be if I asked for them.

MR. CHAMBERS: I am not so sure they would be available if Mr. Hill asked for them.

MR. FENERTY: Now let us get this, my understanding is that we have Mr. Hill coming on the witness stand and under oath saying that he was instructed in the first instance by the Royalite Company and that the Royalite Company has been





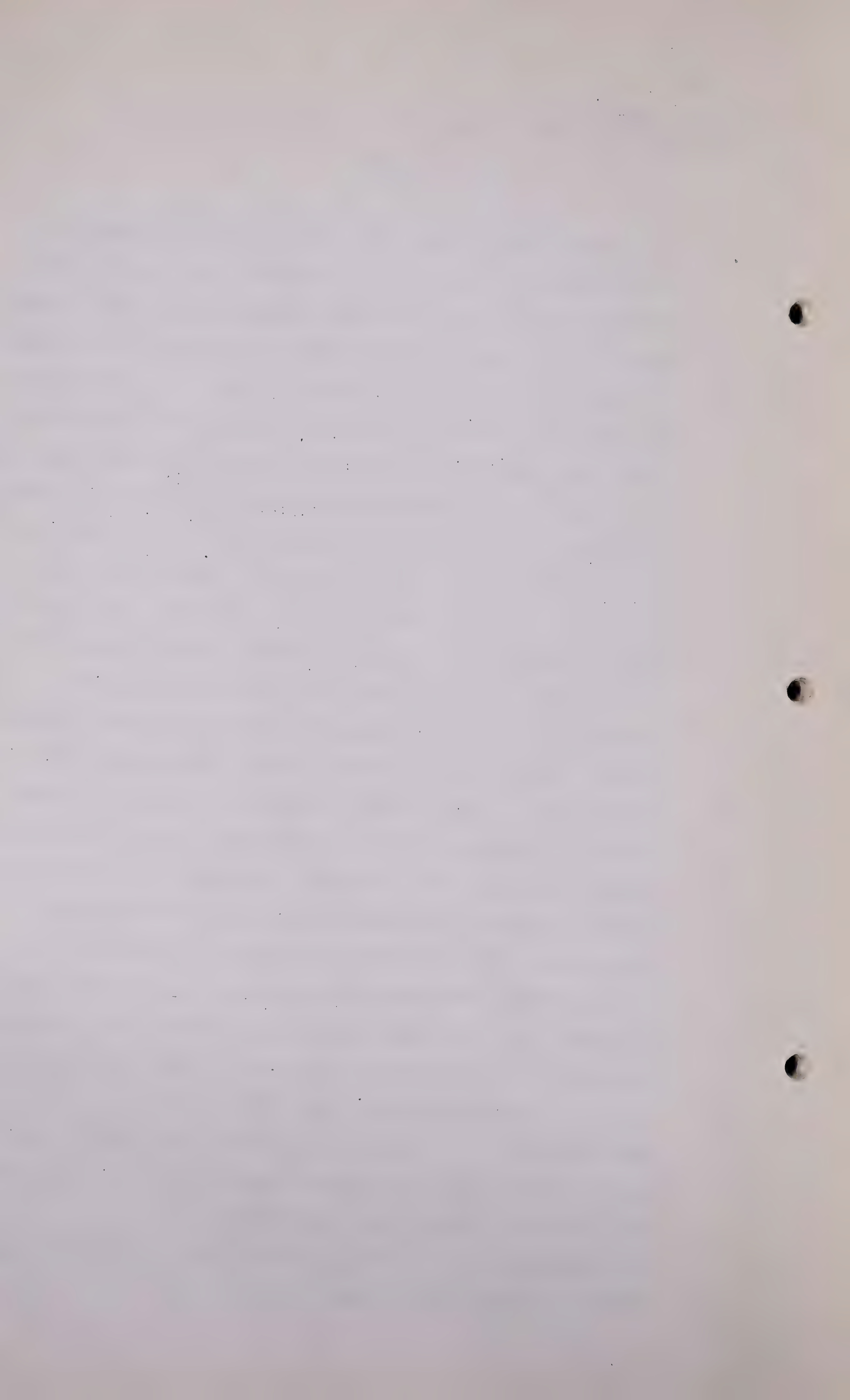
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prepared to make available to him everything in support of his statement and he sits here without contradiction from anybody and says that those conditions will continue in the future and he puts a value to that and he makes a statement of successful operations. Now surely with that the Madison Company, a creation of Royalite, a wholly owned subsidiary, with these figures made available by Royalite to the Witness, they cannot say they will be available now only for private statements and not for cross-examination. A cross-examination is entirely worthless if it is merely confined to whether a direct statement is correct or not. I say Mr. Hill has come here and qualified to give his evidence on the basis that the records of Royalite have been available and he has included two hundred thousand dollars because of Royalite's history and Madison has adopted it and everything which Royalite has, I say, should be available to Madison or the position of Madison here is a farce and I am not satisfied merely because Mr. Hill has made a statement of a successful operation without any foundation, - once that statement comes before the court and is led by my friend acting for a wholly owned subsidiary of Royalite, I say I am entitled to enquire into it fully and that everything that will prove or disprove that statement must be put before this Commission if it is required, in case I want it.

THE CHAIRMAN: Are you suggesting, Mr. Fenerty, that I can order Mr. Hill to produce these books and the records from which he obtained the information?

MR. FENERTY: I am saying this that Madison can be forced to produce them unless they





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come here and contradict Mr. Hill's statement and say that nothing would be available which will assist Mr. Hill and only those things which assist them. That is my position.

THE CHAIRMAN: I think the position is this, Mr. Fenerty, Mr. Hill had made available to him books and records of the Company for the purposes of preparing a report and having prepared his report he surrendered those documents back to the Company. You can cross-examine him as fully as you desire to obtain from him the information which he still has and which he obtained from those books but I do not know of any principle of law under which I can ask or compel Mr. Hill to produce Royalite books.

MR. CHAMBERS: And further-more, this Witness said in an answer to you a few minutes ago, that he did not ask for and he did not have produced to him operating costs or a statement of these profits.

MR. FENERTY: All right, but here is the position, if the Madison say that they have not those books available for them, that they never had been available and that they cannot produce them if they were ordered to produce them, that might be one position but this is not Mr. Hill, this is a witness put forward by Madison. This is Madison's evidence and Madison evidence is that the Royalite Company had a successful Natural Gas Division in operation since 1927. Now if Madison says it cannot get the figures to support that statement or provide them for use on cross-examination, I might not believe them but I might have to accept that position but I want to find out why they cannot get them and I want to cross-examine somebody at length as to why they cannot get them.



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THE CHAIRMAN: You will have that opportunity before the hearing is concluded.

MR. FENERTY: All right. Then all I can do now is to ask the Madison Company to produce the documents which go to the statement of the witness they put on the stand. If they say they will not do it then we will have to see what can be done about it.

MR. CHAMBERS: We are not producing any documents in response to your request.

MR. FENERTY: What is that?

MR. CHAMBERS: I am not producing any documents either Royalite or Madison in response to your requests.

MR. FENERTY: Or any documents relating to any point that comes up in this witness' cross-examination and about which we want details.

MR. CHAMBERS: We will see about those when they come up.

MR. FENERTY: The documents which establish a foundation for these statements.

MR. CHAMBERS: The position I am taking is this, you proceed with your specific questions and when any question as to documents comes up we will deal with it at that time.

MR. FENERTY: Then I will ask the Madison Company now, before proceeding with the cross-examination of this witness, to produce any break-down of operations of the Royalite Company since 1927 which have been made available to them at any time or which are now available to them, which will establish the proof or otherwise of the statement on page 19 of this Witness' report that:

Oil

"The Natural Gas Division of the Royalite/Company Limited has been in successful operation since prior to 1927."





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MR. CHAMBERS: I say I am not producing them and I am not called upon to produce them and I say that your request is unreasonable at this time. This Witness has just told you that he did not base this statement which he made on page 19 on records which he saw of Royalite's as to operating costs or profits.

MR. FENERTY: My friend, I do submit, misconceives the purpose of cross-examination. I say Madison has put forward a statement that Royalite had a successful operation. I assume it, as a responsible concern, it does not put it forward without some background. Now if Madison says "We put it forward without anything to back it up, we cannot get the evidence from Royalite, it is a separate corporate entity", Then I may be up against a stone wall or I may not but I do not think it sufficient for Madison to say just "we will not produce it, we will not let you check those". He must go further and say he cannot get them. I am not confined to what this Witness said. I want to check the statement.

THE CHAIRMAN: Mr. Fenerty, if you were in the Witness box and you were asked to express an opinion about the A. B. Company Limited in which you were a shareholder, and you had bought the shares at a dollar and they were \$10.00 on the exchange today, and they had paid some \$15.00 in dividends, could you not quite properly say, in giving your evidence that the Company had a record of a successful operation and the only thing you have to base that on would be the price you paid for the stock, the dividends you received and the price you could get for it now.

MR. FENERTY: Then if I find that is all he has got, I then want to proceed to find out whether, - we have got





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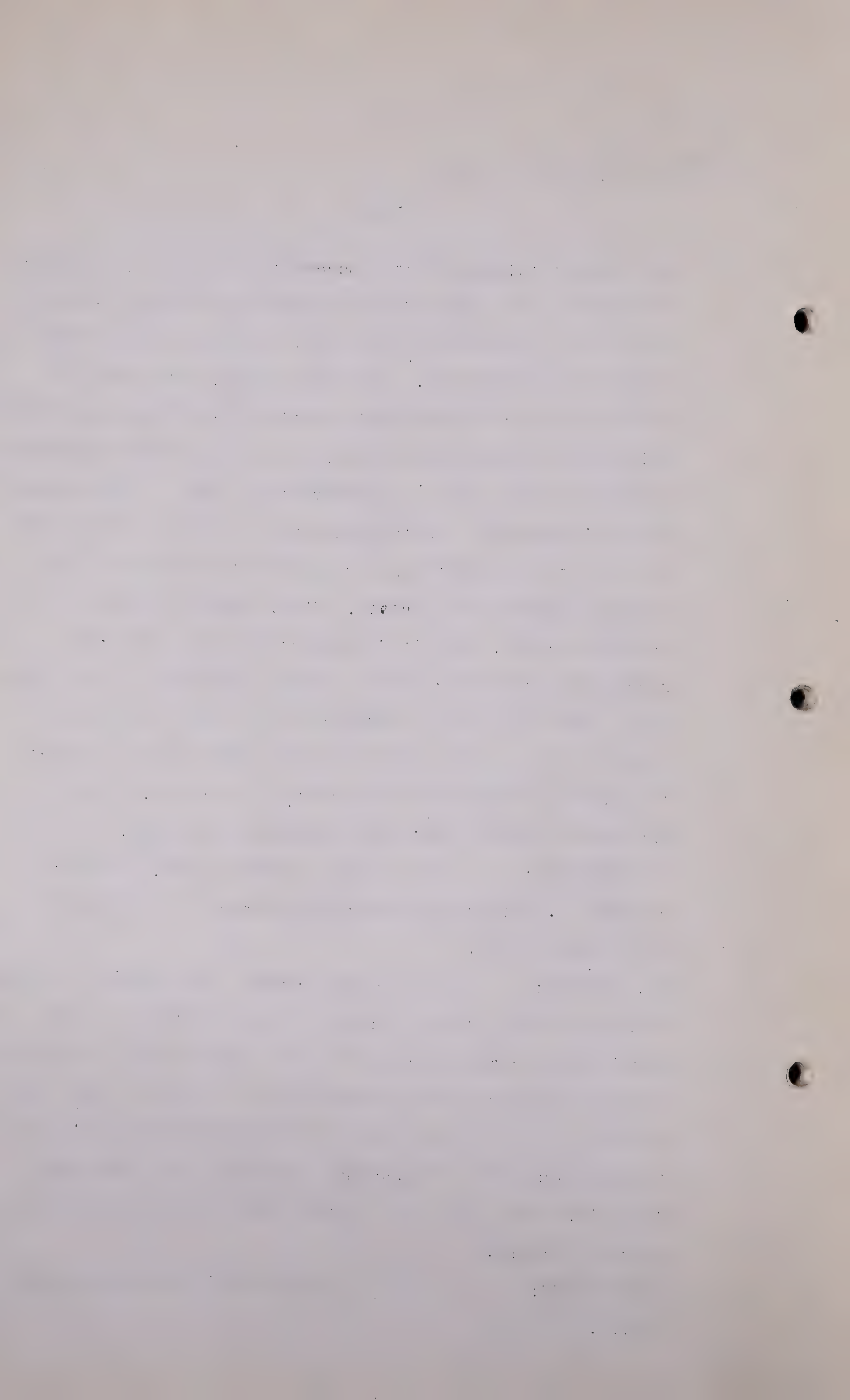
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this expert telling about a successful operation, I want to find out on the actual facts and get his opinion whether or not it was a successful operation. He just does not give opinions to my friends. It may be that we will have to adjourn this cross-examination until we can find out whether, - this report having been put in, - we can get those documents because you will see it is relevant not only for the future but it is relevant for this Inquiry because if it is found out that these operations were successful because of an improper allocation of costs, either capital costs or operating costs, then it follows it may have been too successful or not successful enough, depending on how those were divided and if for instance it was not a successful operation on a proper division, then part of the Witness' two hundred thousand dollars goes by the board. The experience was not just what it should have been.

THE CHAIRMAN: Is not the position this, I cannot compel Mr. Hill to produce books either of the Royalite or of the Madison.

MR. FENERTY: You cannot compel the Witness to produce them if he has not got them but I think I should now be permitted to compel production of anything which is available, before closing this cross-examination, because I want this Witness to tell me whether these divisions were some of the things which made for success and if they are, were they fair divisions and to see whether they are material to this Board's Inquiry.

THE WITNESS: I was volunteered those statements but.....



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Q MR. FENERTY: Well now you have not got them?

A No Sir.

Q And you cannot produce them?

A No Sir.

Q And you have heard Counsel for the Madison Company say he will not give them to me, so I cannot do much more with you on that at the moment?

A Apparently.

MR. FENERTY: I am going to suggest I will have to leave that at the moment without concluding my examination.

Q MR. FENERTY: I take it then that for the moment I can say you just did not have any reason at all for making that statement, that it was a successful operation?

A You can say so, Sir, but I do not.

Q I see. You have agreed with me as to the definition of a successful operation?

A Yes.

Q And in determining whether this was a successful operation, you did not have before you and you did not consider any of the elements making up that definition, is that right?

A Oh no. I did not have before me the operating statements of the Company?

Q You did not have what?

A I did not have the operating statements.

Q Did you have the division of Capital assets before you?

A No.

Q Then you did not have any of these, you did not have any dividend history?

A Not of the Natural Gas Division because it didn't pay a separate dividend.

Q And you did not have any income statements of the Gas Division?





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A No.

Q You did not have any operating expenses of the Gas Division?

A No.

Q And you did not have any capital assets allowed to the Gas Division?

A I knew what they were, yes.

Q Of the Gas Division?

A Oh yes.

Q Well will you tell me?

A Well the original cost.

Q What?

A The capital assets which were allocated.

Q To the Gas Division?

A Yes, that are now Madison.

Q You say you knew those?

A I knew the original cost, approximately.

Q Did you have any division as between the gasoline operations and the Gas Division, of pipe line costs?

A Oh no, no, the pipe line costs were not segregated between the gas and the gasoline.

Q Can we put it this way, that the Royalite Company was in the field and it had been in the gas field since 1927 so you assumed it must have been successful or it would not be there, is that about the case on your evidence?

A A little more than that. I knew they were successful.

Q Is there anything more in your evidence than that?

A Not in the evidence, no, because I did not review the operating statements but I knew it was a successful Company.





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Q And you did not know anything about whether the Gas Division was a successful operation or not?

A Well I know it was.

Q You did not know anything about it?

A I know it was because the Company was apparently happy to own it.

Q Because.....

A The Company, The Royalite Company, was apparently happy to be in the gas business.

Q How did that make it successful, the gas division of the operation?

A I do not know Sir, but the gas division operation, the operations of the gas division, if they were kept separate, were not revealed to me and I did not ask for them.

THE CHAIRMAN: Mr. Fenerty, what occurs to me in that connection, there is one thing that occurs to me in that connection at least, I have never heard the Imperial Oil or Royalite or any of the affiliated Companies being accused of being philanthropist, and they are not going to go into the gas business if they are losing money. I am satisfied of that.

MR. FENERTY: Quite.

Q MR. FENERTY: Well that is your position with reference to that, I take it you would be more or less now willing to withdraw that as an authoratative statement?

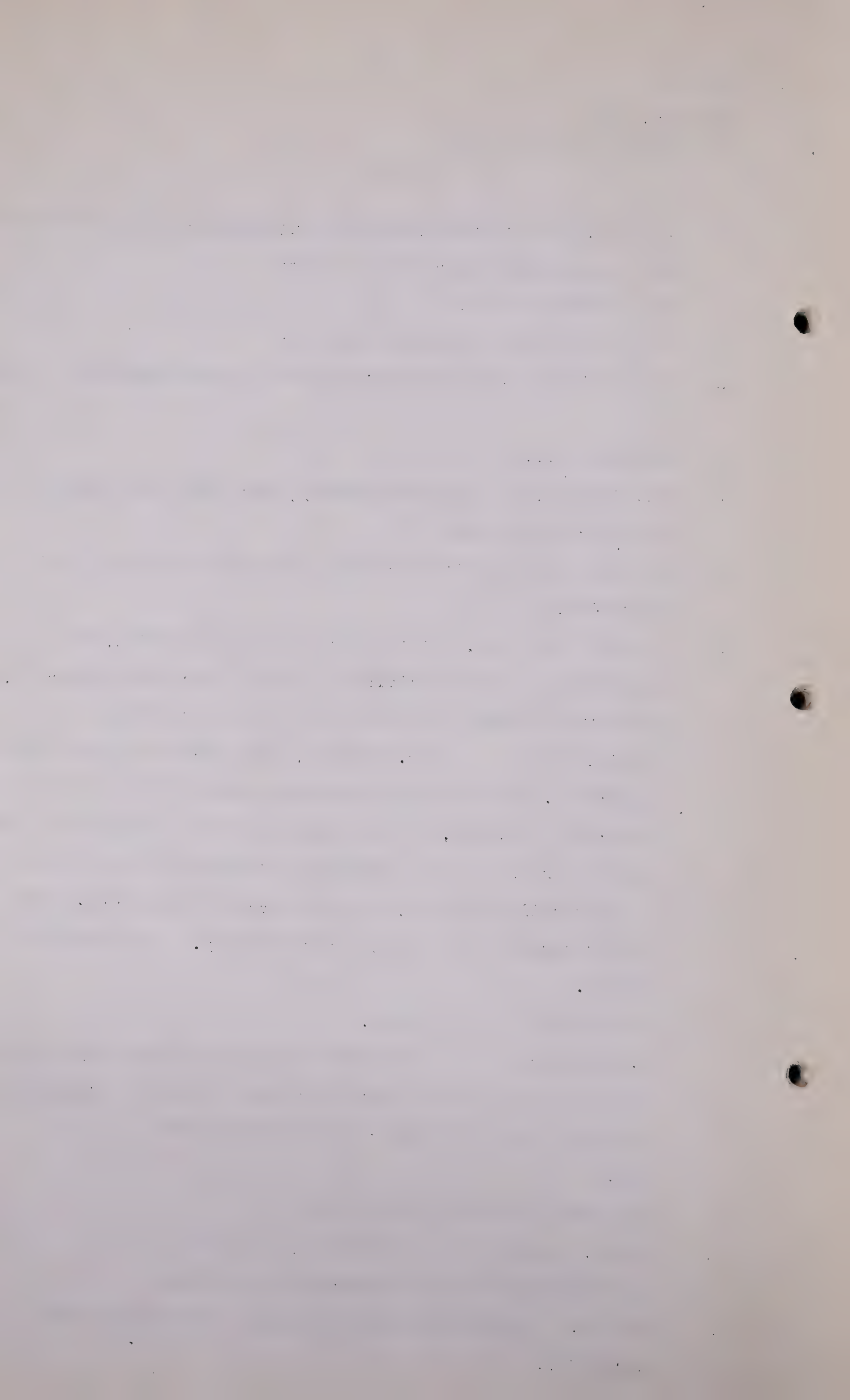
A What.

Q About this successful operation?

A No Sir, I will not. I affirm it, I re-affirm it.

Q You still say it was a successful operation?

A Yes I do. I know as a matter of common knowledge it was successful.



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Q Common knowledge?

A I know the people who operate it and they are happy to be in the business and if it was not successful they would not be in it.

Q That is the test, is it?

A That is one test, that is the test so far as I am concerned.

Q You are here to say that this gas division has been making some real profit, do you?

A I do not know how much real profits it did make.

Q But you say it has made profits?

A I think it has made profits.

Q It would not have been successful if it had not?

A No, it no doubt has made profits.

Q I would be the last one to question a profit motive, you know?

MR. CHAMBERS: Let us get this clear. I do submit you can ask him questions but you are not entitled to argue with him. I submit this witness has been frank throughout his cross-examination but you cannot argue with him. I do suggest there should be something in the way you are putting your questions....

MR. FENERTY: I suggest too there is nothing improper in me finding out from him that he knows that this division has made profits, is there any objection to that.

MR. CHAMBERS: You are entitled to ask him questions but you are not entitled to argue with him.

MR. FENERTY: Did I argue with him?

THE CHAIRMAN: Well, I was talking to Dr. Boomer at the moment and I do not know.

Q MR. FENERTY: I will not argue with you about any statements, I just want to know what you know, do you?

A I do not know how much they made, no, but I know, at least





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in recent years they made profits because I disclose it.

Q You have not even a suspicion of how much they made?

A No, I have not, no, I have not.

Q Now have you, as a result of what you do know, come to any conclusion as to a fair allocation of operating costs as between the absorption industry and the dry gas industry down stream from the absorption plant with reference to those parts of the equipment which you feel are common to both operations?

A No, I have not studied it. I have not made any study of their operating expense allocation.

Q There should be some allocation, should there not?

A Yes, there should be, that is the cost of handling all of the gas should be allocated as between the gasoline plant and the natural gas service to Calgary in proportion to the gas and the costs incurred.

Q And similarly the capital costs of equipment which are common to both operations should be allocated?

A Well either that or the results, either that or the capital charges should be allocated in the same way. I considered the costs made up of capital charges and operating expenses and they should be treated in the same way.

Q At this time you are not in a position to advance any suggestion as to a proper basis?

A No, no, I have not made a study of it.

Q Can we take it this way, that you have here wet gas, this field is a wet gas and crude oil field, there is no dispute about that, is there?

A That is true.

Q And the primary operation<sup>is</sup>/in so far as the crude oil end of



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it is concerned, that is the bringing of the crude oil out of the wells through separators?

A Well I have not examined the crude oil situation in this particular field but that generally is right.

Q But you do know that, following the production from the crude oil wells through separators into the gas gathering system, and the production which we have heard heretofore, from the gas cap which does not go through the separators, that the production from both of these sources then goes in the first instance through the gathering line to the absorption plant?

A It goes to the Compressor Station and from the Compressor Station it goes to the Absorption Plant.

(Go to page 1747)





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Q And then from the absorption plant such portion of the residue dry gas that is required for fuel purposes is scrubbed and goes to the market?

A Yes.

Q And up to this time such portion of the production was not required for the market, what was not required for the market was flared, or some part of it re-pressured?

A Well that is true, some of the gasoline plants, the residue was flared and others they were not.

Q And you know that we have had that operation in the North end of the field in connection with the Royalite plant, and in the central and Southern portions of the field in connection with the G.O.P. and British American plants? going on? I will ask you if you know that. If you knew that going on in the latter two plants particularly without any reference to the market for dry residue gas?

A Yes. I do not know of my own knowledge, only what I have heard from now, common knowledge and read in the papers, but I have never made any study of the G.O.P. or the B.A. operations.

Q But I suggest to you from the information you have had in the investigation you have made that that is a fair statement to make, that these operations in this field have been primarily oil and absorption plant operations with dry gas as a residue incidental to those operations?

A It may have been the case in the early history of the country, but certainly is not since the Company has been supplying Calgary.

Q Well, put it this way, Mr. Hill, the dry gas that was flared, that was apparently a by-product?



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A That is right.

Q That is right?

A Yes.

Q And the only difference between the flaring of the gas and the burning of it in Calgary, we will say, is that there happens to be a market for some of this residue product, is that not it?

A The market was available for part. I do not know whether it was the greater or the lesser part of the residue product, starting with the smaller amount and then a larger.

Q Am I not fair in making this statement, that you had a residue product incidental to the gasoline and oil operations, some of which you could sell, that was the situation, was it not?

A Yes, that was the situation in the early days.

Q All right, we will leave that. Now in considering the division which you told me should be made between the industries with reference to both operating and capital costs that are common to both, would you say that the values in the wet gas or the returns received from it and the values in the dry gas would be the element to consider?

A No.

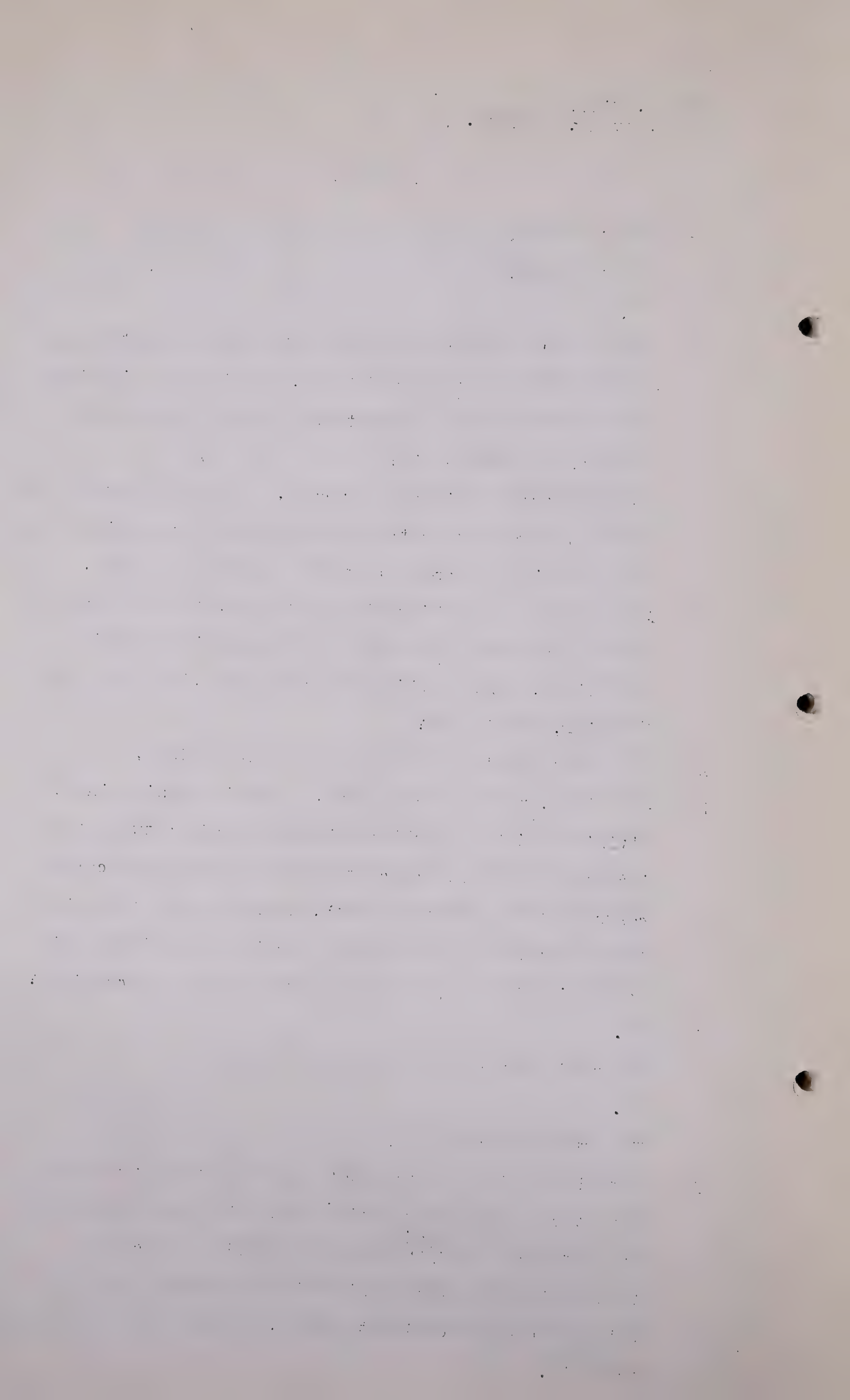
Q You would not pay any attention to that?

A No.

Q What would your idea be?

A I would say towards the costs to deliver the gas to the outlet of a desulphurization plant that goes to Calgary, and I would <sup>against</sup> credit that cost the additional cost of transporting and compressing the gas that we sent to Calgary on a proportionate basis. I think that is the way to do it.





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Q Just the gas without any reference to its value?

A Just the gas, yes.

Q The gas that would be flared, and assuming it is flared, would you attach the same values to that?

A It costs just as much to pump gas, to get gas to the No. 1 station if it is flared, as if it is not flared. There is actually a small flare at No. 1 of high sulphur content gas?

Q And you have an operation there?

A Right.

Q Let us take the G.O.P. operation, I want you to take that?

A All right, but I do not know anything about those, excepting what you have told me about it. I do not know of my own knowledge at all.

Q Assuming then again that you have an operation where there is no market, or a limited market, for the dry gas that is available, and if it is flared, now would you allocate all your costs in that situation and all of your costs, capital costs, to the gasoline operation, you would would you not?

A If the residue of all flared?

Q Yes?

A Then it is an entirely gasoline production business. If you do not sell any of the gas you are in the gasoline business 100%.

Q That is right?

A That is right.

Q And from your knowledge of the situation the only reason we have been flaring any dry gas in the past in this field is that it was produced as an incident of oil and gasoline operations at the time there was no market for it, is it not?



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A If there was not any facility to get it to market.

Q What is that?

A There was no market for it as a practical matter.

Q In other words, in the summer season it was produced entirely as an incident to the oil and gasoline operations.

A You are talking about operations in the field generally by different companies are you not?

Q Yes, but I say in the summer when there was not a market, except for a small consideration, it must have necessarily been produced as an oil or gasoline operation, that is right?

A Yes, that is right.

Q Yes.

A That is during that time.

Q That is during that time?

A Yes.

Q Now do I understand you to say then that in the winter, we will say, that during the cold spell that it is produced as an incident of another operation?

A You are talking about what has been done in the past, and what is happening now on up. The story is different from now on up from what happened in the past.

Q Look, let us assume for the moment that you have the same production of wet gas?

A Yes.

Q From your oil wells and your gas cap wells in winter and summer, you see?

A Yes.

Q You say that the operation in summer is an oil and gasoline operation, and in the winter it is a dry gas operation?

A That is the way it was in the old days.





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Q Pardon?

A That is the way it was in the old days, but now it is different.

Q What I am trying to suggest to you is that it always was, to this time at least, an oil and gasoline operation with a residue product that you might do something with, is that not a fair statement?

A Yes, it was in part, but the B.A. and G.O.P. I assume it was entirely.

Q The only difference is that you say in part and I say in whole?

A Yes, that is possibly it.

Q Just one more question or a couple. In connection with this rate base, Page 17 of your report, and I am not going to go into it at length.

MR. CHAMBERS: You refer to rate base, Mr. Fenerty?

MR. FENERTY: Pardon me, I did not mean the rate base, I mean this, the new amortization unit at the bottom of Page 16, you say, "Regardless of the basis upon which the annual amortization of capital is computed, the capital of the new company should be periodically reduced by the use of the amortization reserve. At regular intervals, say every three years, it would be advisable that the operations of the new company be reviewed and the amount in the reserve, less a reasonable provision for the cost of plant extensions necessary in the near future, we then distribute to the stockholders as a special liquidating dividend." And then at the bottom of Page 17 you say that it is a simple plan and say, "under this simple plan, no complicated retirement or depreciation accounting would be necessary for rate making purposes. Its adoption would reduce the



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risk inherent in the business and if adopted and adhered to consistently, it would go a long way toward assuring gas consumers of a long-time gas supply at low average cost." Now I suggest to you that it might go further and give the gas consumers some benefit in doing that annually instead of every three years, what do you think about that?

A I think it would be unduly expensive.

Q What is that?

A I think it would be unduly expensive.

Q Just a minute. There is no difficulty in making computations of this kind for the purpose of paying ordinary dividends to the Company. It is quite common to make dividend payments quarterly, half-yearly and annually, and there is no reason why the reasoning should not apply to dividend computations like this?

A Three years is my idea. Yours is one year. I think my idea is a little more rational than yours.

Q Well would you agree with me, or you would agree with me this way, would you not, that a three-year period is going to result in some financial benefit to the company, and some consequent financial loss is possible?

A There might be some slight difference financially, but not enough.

Q I guess we have a different viewpoint. You are looking at it from the viewpoint of the company, and I am looking at it from the viewpoint of the consumer, that is where we differ?

A No, the consumer in Calgary is fortunately situated with respect to his natural gas, but you may be able to mathematically prove that a review every year might result in a slightly lower price.



The first of the year was a very dry one, and the crops were much affected. The weather was very hot, and the crops were much affected. The first of the year was a very dry one, and the crops were much affected. The weather was very hot, and the crops were much affected.

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The second of the year was a very wet one, and the crops were much affected. The weather was very cold, and the crops were much affected. The second of the year was a very wet one, and the crops were much affected. The weather was very cold, and the crops were much affected.

The third of the year was a very dry one, and the crops were much affected. The weather was very hot, and the crops were much affected. The third of the year was a very dry one, and the crops were much affected. The weather was very hot, and the crops were much affected.

The fourth of the year was a very wet one, and the crops were much affected. The weather was very cold, and the crops were much affected. The fourth of the year was a very wet one, and the crops were much affected. The weather was very cold, and the crops were much affected.

The fifth of the year was a very dry one, and the crops were much affected. The weather was very hot, and the crops were much affected. The fifth of the year was a very dry one, and the crops were much affected. The weather was very hot, and the crops were much affected.

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Q Well, we will leave it this way, the three years is a figure that you happened to hit on, and I am probably lucky you did not think of ten years, is that right?

A No, I would not naturally hit on ten years. That would be ridiculous. I think that three years is a fair basis.

Q All right. Now I want to ask you a couple of questions, I do not intend to go into the field very far because it was covered by Mr. Blanchard very fully, but I am having a little difficulty with this mythical 1943 construction. I realize, of course, you are taking that, the reason you are taking that date and so on, but it is more academic rather than practical if you are actually dealing with construction, is it not?

A You mean doing it all in one year, is that what you mean?

Q I do not suppose you could have constructed this plant at all in 1943, could you?

A Yes.

Q You could have got pipe?

A Yes, you could have got pipe.

Q You could get pipe?

A Yes. We built a bigger proposition than this in the States, 120 miles of 20 inch line across Iowa, and we had AA3 priority, which is not a very high priority.

Q You could get material?

A Yes, we could get material. You could get material if you were entitled to get the material.

Q And your prices admittedly are higher during that period, due to wartime costs?

A Yes, the costs reflect the increased cost due to the war in part.

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Q And did you not suggest that those costs would in all probability continue and would become normal costs?

A I said I apprehend that the costs when this war is over will be higher than before, and I am basing that judgment on what happened after the First World War, and what is heppening today.

Q That is not based on history is it?

A Yes, that is based on history. You know what happened after the First World War.

Q And that was the history, was it?

A Yes. Before the First World War the labour rates were about half of what they were after the First World War. Before the First World War, a common labourer for about 25 cents an hour, and after the First World War he got about 50 cents, and that stayed there as an inflation after the First World War.

Q How long after are you talking about?

A It still exists, and it is coming up again. You must know that the value of a dollar has been getting continually lower with respect to what you can get in the way of service for it.

Q As far as the States are concerned, the costs were less when this war started than what they are now?

A War always tends to inflation, and it is so in the United States and Canada.

Q War tends to inflation?

A Yes, I suppose.

Q And what is the converse of that, that war has a tendency to inflation?

A Depressions have a tendency to deflation.





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Q But you suggest in this case that it will be something different.

THE CHAIRMAN: You are presupposing a depression after the war.

MR. FENERTY: Now, Mr. Hill.....

MR CHAMBERS: You asked him a question, let him answer it. I know you did not do it intentionally.

MR. FENERTY: No, I did not do it intentionally.

WITNESS: I apprehend that we will have for a reasonable period after the war, for say three years at least, an increase, a general increase in the price of materials and labour both, above what they were prior to the Second World War.

Q MR. FENERTY: Yes. Now, I am going to ask you something else. I gather from your evidence on the rates of depreciation that you have given, that you have got most of this equipment, these pipes which have been in these compressors and so on, that is very fine equipment and it has a long life?

A It is fine equipment and they will have a long life barring accidents.

Q Yes. And they have a life most of them greatly in excess of what would be required if this plant had been installed in 1943, with the future we have as to the life of the field, would they not?

A I don't quite understand your question.

Q Well, I will ask you this way. You are going to have a life of the field say of 23 years or 25 years?

A I do not agree with that, but I will have to assume it.

Q Yes. And you are going to take pipe, the life of the field is say 25 years?



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A Yes.

Q And you are going to have a salvage value of what was it, 5%?

A That is as good a guess as any, I suppose, as good a guess as anybody else's.

Q Now would you as a business man or as an engineer, come into that field to put down pipe which will have a salvage value of 5% at the end of 25 years and proceed to spend a lot of money on it, and wrapping it and coating it with tar, so that it will have a life of 50 years, is that good business?

A Yes, it is good business, because the protection you will get from that wrapping gives you a substantial head start before the corrosion starts. The wrapping will not last as long as the pipe, and it is good business to do it. It is not particularly expensive.

Q But in your rate base, you do agree that salvage, do you not, should appear in computing your rate base?

A No, not in my rate base.

Q What is that?

A No, not in my rate base. I said no, it could not appear in the rate base this morning, it should be in the amortization computation, that is where the salvage will appear.

Q They do not just get an allowance for it?

A I say in the rate base there should be no consideration given to salvage, but there should be in computing the annual allowance for amortization of capital, so that the Company will get back only what it has left.

Q And you are going to amortize on the basis of the life of the field?

A On a basis of a certain amount in cents per thousand cubic





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feet of gas handled, so that whether the field lasts ten years or fifty years, the Company will still get its money back.

Q Now, just sweeping all that aside for a moment, the fact is that were it possible to instal a plant and gathering lines which would give efficient service for the life of the field, that would save some money for the people, but ultimately pay for the cost would it not?

A No sir.

Q It would not?

A No. You would have more maintenance on that sort of a system in the later years of its life. You would not save anything in my opinion.

Q Now I am going to go to the gas lines' cost, which is what I think I understand, what object is there in your going into a field in 1943 to put down gas lines to operate for 25 years, what object is there spending a lot of money to make sure that the lines would have operated for 50 years?

A Well of course this Company did not do that specifically. It spent money to protect its pipes to make certain it would last as long as the pipe could be made to last in this country. Now this assumption of 25 years is foreign to me. I am accepting it because you told me to accept it, but as I said the other day, this gas field out here would not be dead and gone in 25 years. That is not the history of the gas fields in the United States. They live a longer life because as the load on them increases other gas fields come in and the load is shared and any particular field lasts the longer.

Q Oh yes, you are getting to that question now?



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A I am only going from experience. In other words, take the Edmonton Company, we built that company in 1923 to last 20 years. We quoted our price for that time. And then the Kinsella field came in and they got a new lease on life. Their pipe would have been largely gone by now had they not taken it up, and the Kinsella field came in and they had a longer lease on life. The same thing will happen down here. This gas will be available for more than 25 years, not in full quantity but our pipe lines will not be junk in 25 years.

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Cross-Ex. by Mr. Fenerty  
Cross-Ex. by Mr. Steer

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Q You have in mind that the Turner Valley field may be a standby field in 25 years.

A Well not a standby field. It may be used only in part to supply the Calgary market. I am thinking about years from now. This Company, the Gas Company - they are developing all around and they will no doubt continue to.

Q Are you amortizing all your stuff in that expectation?

A I am amortizing the investment in the Turner Valley field over the contents of that field to get the cost basis per Mcf. and it makes no difference whether it is 5 or 25 years before they get the gas out. You get your money back just the same. You do not get some of it back so early. It takes longer to do that.

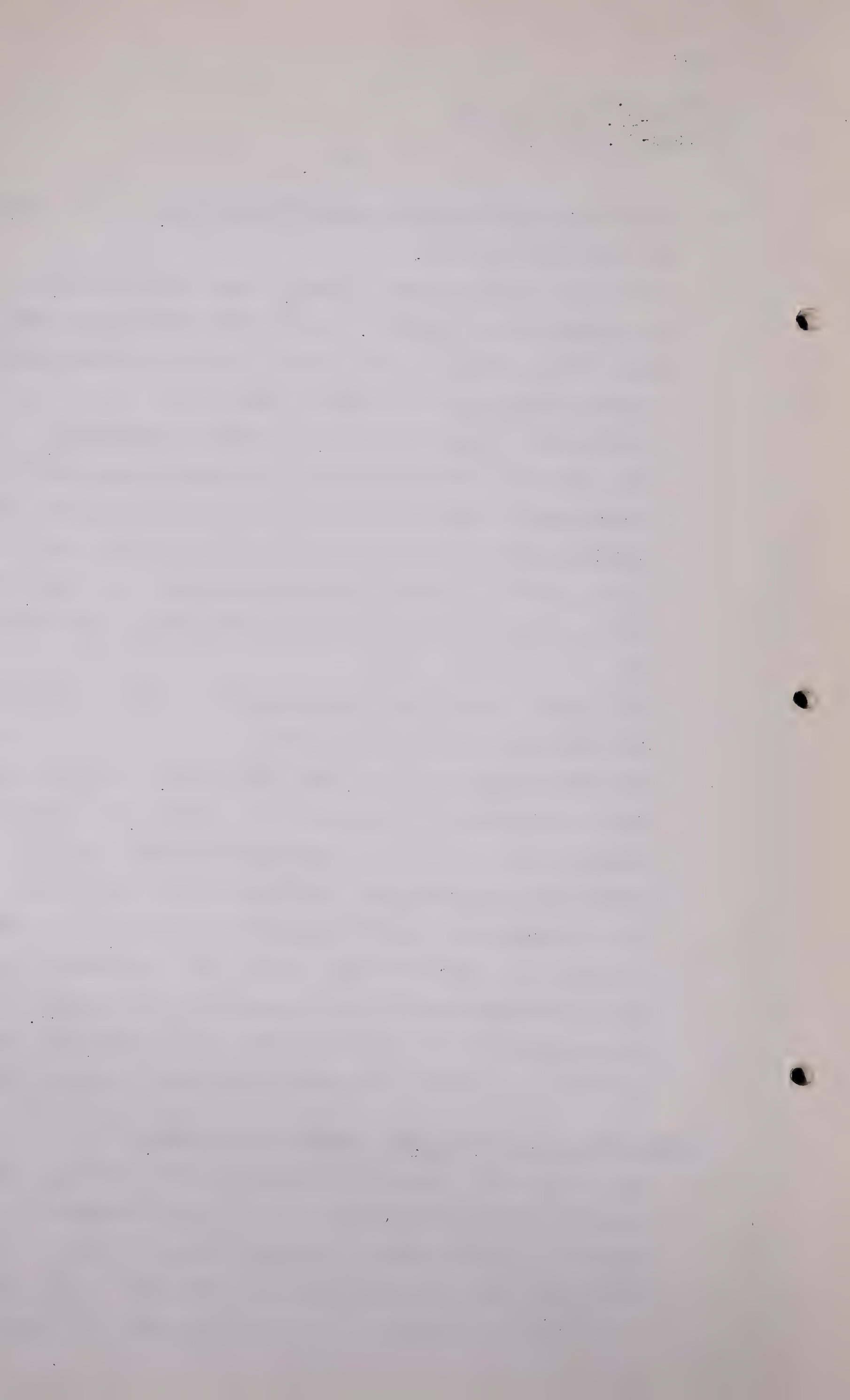
Q It is going to make a lot of difference in interest and operating expense is it not? Or is it?

A Now your equipment out here, say in 25 years from now, will increase and instead of supplying 82 million - - - Turner Valley, I mean, instead of supplying 82 million, it will supply say 20 million feet a day and you will not need as large an investment and the Commission will review this thing every once in a while to take care of that. Now this field will be producing gas out here longer than for 25 years. I am expecting it and I think everybody else is expecting it and that is the reason I am doing it the way I am doing it.

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. STEER.

Q You stated to my friend, Mr. Harvie, Mr. Hill, that you would charge to Royalite as I understood it whatever amount of gas was used up in the gasoline plant or used up as fuel.

A Well as fuel for Royalite operations. The fuel that is used at the boiler plant and at the power house would be prorated



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Cross-Ex. by Mr. Steer.

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in costs. That is the Royalite will be charged with its share in the cost of current and the cost of steam for that fuel.

Q Then you gave my friend an estimate and I think you said that a 15 per cent charge to the Absorption Plant would be equitable.

A I did not mention 15 per cent.

MR. HARVIE: I said assuming that much was right.

A I said if it is 15 per cent. I do not know what the percentage would be but it varies from time to time, depending on what they are making out there.

Q MR. STEER: I gather that the suggestion is made here that the division of the operating costs is to be on what is called a volumetric basis.

A When my friend asked me what idea I would have I said I would think that would be a fair basis but I made no computation of it. That occurs to me as being a proper basis.

Q Is it a technical term?

A Volume basis?

Q Volumetric basis.

A Semi-technical.

Q Then tell me what it means as a technical term.

A If half of the gas is used in the gasoline plant, the gasoline plant pays half the cost of getting the gas to it.

Q The Royalite Company could not operate its plant without having a claim to and processing the whole of that gas that enters this plant?

A Not as a practical thing. It might of course build a gasoline plant at some other point and process only part of the gas but that would not get a very satisfactory and definite result when the gas goes to Calgary, because it is necessary to get the gasoline out of all of it.





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Q Perhaps you will explain that.

A You asked me could Royalite operate without processing all the gas and I said yes it could. It could process part of the gas with a smaller plant.

Q Of course it could but it would then lose all of the gasoline content of the part that it did not process.

A That is true. I tried to answer your question literally as you asked it. It might operate with less than all of the gas and I think profitably. But not as well as it could operate with all the gas.

Q Now put your mind back to 1943 to the No. 1 Plant. None of this scheme we have been discussing here had been contemplated at that time.

A You mean the formation of Madison?

Q Yes. That is right.

A Yes, it was contemplated because that is the reason I came out here and made my valuation.

Q The No. 1 plant was operating solely as a gasoline plant and it was connected with practically all the gas supply with which it is connected today.

A I assume you are right. I cannot answer the question exactly what it was connected to.

Q I suppose it would be in the interests of the Royalite Company to get as great a supply as possible of wet gas of a proper quality.

A I assume it would be, yes.

Q Yes, and Royalite would have to have the right to process and use all that gas for the purpose of extracting gasoline from it in its Plant.

A If we say the right to process the gas I would say yes. Of course part of the gas, when you put the gas through the gas-



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Cross-Ex. by Mr. Steer.

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oline Plant you get less out than you put in. You get less gas out than you put in.

Q My suggestion to you is that the Royalite would have to have a claim of some sort on 100 per cent of that gas. It has not got any claim . . . . We will say the percentage of shrinkage is 15 per cent.

A Yes.

Q It could not accomplish its object by dealing with 15 per cent.

A 15 per cent is what is transformed from natural gas into gasoline.

Q Certainly.

A That is the substance that goes into the gasoline.

Q Yes. So then on page 70 of your report, Mr. Hill, you speak of 2 gas hydrate traps.

A Yes.

Q And then on pages 28 and 29, there is a boiler to use with them and a boiler house.

MR. CHAMBERS: What is the second item?

MR. STEER: On pages 28 and 29.

Q Assuming the adoption of the Girdler process only and the scrapping or other disposition of the Seaboard, with the dehydration apparatus connected with the Girdler process, these things are unnecessary.

A They are not as necessary as they would be at present. Their usefulness is diminished.

Q Do you say that the dehydration operation of the Girdler process then is not efficient.

A No, it is efficient.

Q Then why would you use the water traps?

A Well the traps are there and they would act as a safeguard against foreign matter getting into the Calgary Gas Company's





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Cross-Ex. by Mr. Steer.

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line.

Q The traps are there?

A They are there.

Q And because they are there you suggest they ought to be used is that right?

A That is right. I would not discontinue their use.

Q We will assume that the Girdler process is installed with a dehydration unit and we will assume that these water traps are not there. Do you advocate their installation?

A I would not put them in, no.

Q I was interested in what you were saying about the sponsorship of these companies. Your evidence as to sponsorship is based upon your experience here in 1943 and prior to those years or prior to that year?

A It is based on my experience prior to 1943, yes.

Q So that what you would be talking about there would be the sponsorship of the Royalite Company by the Imperial Oil Company?

A Yes.

Q In other words you would not have any idea of any sponsorship of Madison at that time either by Royalite or by Imperial?

A Well I knew that . . . . I knew that if these properties, these gas properties were sold by the Royalite to Madison, the ownership of the stock of Madison would continue in Royalite and the same interest would exist.

Q And you would expect the same sponsorship for the future as you had seen evidence of in the past?

A Yes.

Q I am suggesting to you that the sponsorship of Imperial of Royalite was due to Royalite's activities as a gasoline business.



Edgar G. Hill,  
Cross-Ex. by Mr. Steer.

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A That is a new suggestion.

Q What?

A That is a novel suggestion.

Q What is your suggestion?

A Well I think the sponsorship of Imperial to Royalite pertained to all branches of Royalite business.

Q And you are here to say, or are you here to say that Royalite was a gas business in its inception.

A Its inception?

Q Yes.

A No.

Q What was it in its inception?

A And exploratory business to explore for the production of crude oil and gas which is an incident. Crude oil was its prime aim.

Q You know enough about Turner Valley, I suppose, to know that so far as it is concerned the aim of all drilling in Turner Valley was crude oil.

A I do not know enough to answer that question. I think to a large extent what you say is true.

Q Yes. Then if you are talking about the sponsorship of the Imperial and its parent at the time that you were making this examination, there was not any sponsorship required except to the extent that this Board was going to order new construction was there?

A Well the sponsorship was not required. That is Madison could get along with out it of course. But it could not get along without it in my opinion as well as it could with it, or as cheaply.

Q Royalite, on the 15th of November 1943, was an integrated operation, was it not?





Edgar G. Hill,  
Cross-Ex. by Mr. Steer.  
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A Yes.

Q It had had the benefit of the sponsorship of Imperial Oil as you say since its inception, that is right?

A Yes.

Q The only new departure that was going to take place as a result of which you were called upon to make this valuation was that this scheme we are now investigating was liable to be adopted.

A Yes.

Q That is true?

A That is true.

Q My suggestion to you is that the only occasion for any sponsorship of Madison was the fact that they were going to undertake this new construction. That is right, is it not?

A That is right, but when I say sponsorship I mean the interest which the parent has in its subsidiary and the service to which it always has access.

Q I think that is all.

THE CHAIRMAN: Mr. Chambers?

MR. CHAMBERS: Nothing.

DR. BOOMER: Mr. Hill, I am curious about your instructions in 1943 as to whether you made your appraisal with any idea in mind of either selling the equipment or buying the equipment.

A Well of course I made my appraisal with the knowledge that this property would be segregated from the Royalite and made into a public utility and its charges and rates are fixed by the Board. I know that.

Q In 1943?

A In 1943.

Q I did not.

A No, I know you did not but I did. That is I was told that



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Exam. by Dr. Boomer.

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the same thing might happen to this thing that happened to the Pipeline Company.

Q Who told you?

A Fred Bimel. That was the reason he wanted me to come out and appraise it that they might be separated from the Royalite.

Q You know that there was no such act in 1943.

A I know that, Dr. Boomer.

Q I do not know of my own knowledge that it was contemplated.

A I don't either.

Q Then in essence you appraised this property as a seller?

A As a seller.

Q I am curious about the \$200,000 Going Value. Did I understand you correctly to mean that that \$200,000 should be added to the capital value because of the good practice employed by Royalite and Imperial?

A In construction and operation. That I think was just a single factor in my mind. I knew that if this property had been built as we built the Edmonton company or as we built the Southern Natural Gas Company it would have cost more and I knew that if it had been operated as a single utility by men who gave all their time to the business it would cost more to operate. In my opinion the public should be willing to share with a company so sponsored and so built and so operated a part of the savings resulting from that sponsorship.

Q My way of looking at the situation is this. If the company employs good engineers and follows good practice do not they get their reward in the profit and loss statement?

A They get some.

Q Is not that the reason why you hire good engineers?

A Why we are hired as engineers?





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Q No, why you do hire good engineers.

A Yes, I would hire a good engineer and get the benefit of the most modern experience.

Q Do you capitalize that?

A It is not construction but you capitalize the cost.

Q Do you capitalize the engineer's ability?

A His ability is paid for as we pay his bill.

Q THE CHAIRMAN: Do you capitalize it in the balance sheet?

A We capitalize it when we come to build the property.

Q DR. BOOMER: I am not talking about consulting, I am talking about an employee of Ford, Bacon & Davis.

A Do you mean do we put a higher value on his services because we think he is a better man?

Q No, but if you hired a good man who does a good job for you do you increase your capitalization by some figure?

A Oh no, you do not. My inclusion of this element of Going Value is done specifically for this reason, to bring the attention of this commission to the fact that this property was built piecemeal at a low cost by an operating organization with extremely strong sponsorship. They had to borrow no money and pay no interest. The operating personnel operates on a part-time basis. It is so constituted that it can get and does get good advice on construction and operating problems for nothing. Nothing of that shows on a financial statement anywhere. I just feel that a company of that kind should have some recognition either in an allowance for going concern value or in some other fashion for its fortunate position. The public should not get it all.

Q We are agreed are we not that the Royalite Company has been



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quite successful?

A I think it is very successful.

Q And they are getting their reward now.

A We are planning now the reward for the next year.

Q Is not the proper place for that in the rate of return and in the capital value?

A It could be recognized there.

Q You appraise their equipment quite highly.

A I do not think I appraised it, I did not give any weight in my appraisal to the fact that this was an Imperial subsidiary. I would have appraised it just the same had it been owned by the Gas Company or by the Edmonton Company or any other company.

Q I may not have made myself clear. If there had not been good engineering and good sponsorship the quality of the equipment would be poorer and your appraisal would be less.

A That is true.

Q In addition to that factor, you want \$200,000, in addition.

A- I think that is a fair statement because I feel that the company cost less to build and costs less to operate by the way it is set up.

Q I notice in your appraisal on page 41, 2 gas engines gas compressors, 80 horsepower. Do you know the history of those machines?

A I know from their serial numbers that they are old engines and I know that type of engine has not been commercially marketed for several years. I think I bought the second one of that type that was ever built back in 1919.

Q Would that be true of the 9 gas engines referred to on page 52?

A Yes, those are old engines.





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Q Do you know when they were first bought?

A I guess back in the 1920's.

Q Do you know what they were first used for?

A They were used in the field for other purposes before they were put in that plant. I heard what they were used for but I cannot remember whether it was for compressing service in connection with the old plant.

Q Subject to correction by people who know, I think some of them were used in the old compressor gasoline plant.

A What they did they put those engines in the solution house and took the compressor cylinder out.

Q Yes, I know what happened.

A And put on a heavy built type of liners and turned them into power engines.

Q Bearing in mind each of those machines would you still just depreciate them at 30 or 40 per cent?

A I would think so, yes, because I have had the engine I bought in 1919 and it is still going along every day just as good. I depreciated those 30 per cent. You understand of course before they put an engine like this into the No. 3 station, they thoroughly overhauled it and put a new compressor cylinder on. There is nothing much to wear on them. It is a 2 cycle unit.

Q Can you tell me if the presence of the Absorption Plant upstream from the scrubbing plant has any effect upon the design and construction and the operating cost of the scrubbing plant?

A I cannot think of anything. The gas would be saturated in any event with water and vapour.

Q Would the presence of a carry-over, I am not suggesting there is a carry-over, of oil have any effect?



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- A No, what is missed presumably is cut out in the Plant..But those traps are not designed for that purpose but there may be some light carry-over. If there is, it is relatively slight.
- Q Those traps are charged to the Absorption Plant and not to the scrubbing plant?
- A Yes sir.
- Q Would I be correct in saying that the first Absorption Plant was built about 1933?
- A I think that is the right date when they started the first gasoline plant.
- Q Do you know whether Royalite gathered gas prior to that time?
- A I know that - yes, I am quite sure that it did. They started in to serve Calgary with gas in the 1920's.
- Q Then the operation prior to 1933 was in connection with the gas service to Calgary. That is the sole reason for the gathering lines prior to 1933 was to get gas to Calgary?
- A I would not want to say that. I am not any too familiar with the history of this property as far as its hook-up is concerned in the earlier days. I saw it first in the middle 1920's and I was not particularly interested at that time. I just looked at it as a gas property and I did not see it again until the early 1930's when I again visited, just as a visitor. My contact really started in 1938 when I looked into the Valley Pipeline.





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- Q In appraising the gas purifying plant how much weight did you give to the historical cost?
- A The historical cost?
- Q The historical cost?
- A I used the historical cost of the Girbotol plant practically as it was. I did not increase it if any. I incorporated in that, plant from some other places but other than that I did not interfere with the costs as I found them in 1941 and 1942.
- Q The Girbotol was changed from one solution to two solutions?
- A It was changed.
- Q At considerable cost?
- A Yes.
- Q Does the cost of that change appear in your appraisal?
- A Yes, a large part of it does.
- Q If that had been built in the first instance with a sufficient capacity would it have cost as much?
- A I cannot tell you. I would say probably it would not have but what difference there would be I cannot tell you.
- Q Can you give me an estimate of what the cost of the change necessitated amounted to?
- A I think they spent in 1942 and 1943 on that change about \$40,000.00 but part of that was new equipment which would have been necessary in the first instance. I did not make any breakdown of that. You see I did not write out anything. I saw the original quotations on the equipment for the Girbotol in 1941 and I knew it would cost more in 1943 than in 1941 by a small amount but I did not use that, I did not increase the cost of the 1941 equipment to the 1943. I checked the cost of making the changes and I thought, in my opinion, I arrived at a reasonable figure considering the plant.



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Q You do not have to answer this one if you do not want to, but what would you have advised if asked by Royalite about putting in a complete Girbotol unit in preference to the Seaboard, in 1941?

A In 1941?

Q And in 1942?

A That is a hard question to answer because that would involve something about operating results and if I found at that time it was better, of course I would have advised it.

Q You do not know enough of the operations of the Girbotol and the Seaboard to say?

A No I do not.

Q THE CHAIRMAN: Mr. Hill, you valued the property of the pipe line division of the Royalite in 1938 or 1939?

A The Valley Pipe Line Company.

Q The Valley Pipe Line Company?

A Yes.

Q Then you revalued it again in 1939 or brought your figures up to date?

A Well I did it, sir, just informally. I did not make any revised report, I just added about 22%.

Q And in 1943 if you had been valuing the Valley Pipe Line Company's plant, I think you said there would be an overall increase of 23.2%?

A That is right.

Q And that new valuation or that revision of your figures up to date was made about the same time as you valued this gas division which we are now investigating?

A That is true.

Q Would it be fair to say that approximately the same overall increase in the value of the gas division property would





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apply, when comparing the 1939 with the 1943 figures, for that position?

A I think it would be. Of course you must remember a good deal of the gas division property was there in 1938, but if you wanted to get an idea of the 1938 costs of this particular property, - 23.2% I think would not be out of line to get the costs back to 1938.

Q But you would have to segregate the items and know the construction since 1943?

A Yes, you would have to, the latest report was, I think I said I used 20 or 25% of an increase for part of it which was built prior to the war.

Q Yes, and that is a price increase due to war conditions, an increase in the cost of materials and an increase in the cost of labour, and an increase in war taxes?

A Yes.

Q Now this Company did not pay those war taxes?

A Not on the property which was bought prior to the war.

Q Do you think it is fair to charge the consumer in a valuation like this with special war taxes which the Company never paid and never will pay?

A That gets back to the velocity of the rise, to the reproduction costs on a rising market and that is a question - -

Q On which there is a tremendous controversy?

A That is right. I think those costs should be recognized when the Commission or the Court feels that they are, the level which has been reached by those costs is apt to continue into the future. I think that is a question which the Commission will have to settle for itself.

Q Yes, but we want a little help now and then, Mr. Hill, if we can get it.



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- A That is true and I have given you my ideas. I testified yesterday that I did that and <sup>if</sup> it was my belief that those prices were settled I would not have appraised the property the way I did.
- Q I was just going to ask you that question or a question along those lines, could the year 1939 be considered as an abnormal year with respect to the value of labour and materials?
- A 1939, so far as December 1st, yes.
- Q Then you expect that the present high levels may continue for a period of three years?
- A I think so, yes.
- Q And what would you expect to happen then?
- A I do not know. I have no way of forming a judgment. If we had depressed conditions possibly they would go down.
- Q So if we attempt to make any distribution of this 23.2% increase, it will have to be done on some arbitrary basis?
- A I would think so. You would have to form your own judgment as to what is going to happen.
- Q Would it be right to say this, Mr. Hill, that the method employed by you in making your valuation, namely reproduction costs new, would be a combination of book value where you could find it, manufacturers costs when you couldn't get book values, to which you added a percentage to cover increased costs of labour and materials, plus a factor based on your own personal judgment?
- A Well I do not know just what you mean by that "plus that factor". I followed you up to that remark perfectly and I would say "Yes".
- Q That is quite all right, Mr. Hill, I did not know whether you were taking those factors which I mentioned and then applying





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to them some measure of your own personal judgment, and you say not, do you?

A Well where the whole property was acquired and I knew its costs, I applied a factor to bring it up to 1943, perhaps at 25% and the labour perhaps 20%. Now I did not add anything more except that allowance for transportation costs which I said was purely a war time factor.

Q Is it proper in constructing a rate base, Mr. Hill, to consider the accrued depreciation, that is the accrued depreciation which appears on the books of the Company?

A I think that if a Company has, in the past, has been operated as a public utility, it should be considered. I do not think that the depreciation that the Royalite wrote off should be considered because the Royalite was not a utility and had no interest in maintaining its capital account. This charge was a justified depreciation. A Company such as this charges as high an annual depreciation as they can and the result is their capital account is retired quickly and they are in possession of a substantial sum of money each year which they do not have to distribute to stockholders.

Q So your answer is "No, it is not proper to consider the back depreciation in constructing a rate base for a Company which is being brought under regulation for the first time", that is your answer?

A That is my opinion.

Q Now do you agree with Mr. Steer that the original costs and service value should be considered in building a rate base?

A Yes.

Q Now to what extent have you used original costs in preparing your valuations?



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A I used it in the case of the Girbotol plant. I used it in the case of the additions to Compressor Station No. 1 which were made in 1941. I may say that I used actual costs for everything built between 1941 and later. I either used or gave it major weight in my figures and the cost of construction prior to that time I developed as I have told you, largely from historical costs to which I applied a factor. That was not true on the pipe line construction. I made up my own figures on the pipe line construction and the prices are higher than those which the Company had actually paid out or about an equal valuation but with other equipment I used either costs for late installations or adjusted costs for earlier installations.

Q Now to what extent did you apply, in your valuation, the service that this plant was capable of giving or was giving?

A I do not quite understand that.

Q You told Mr. Steer that you considered that original costs and service value - -

A That is right.

Q Both should be considered in constructing the rate base?

A Yes. Now I did not give the service value consideration anywhere because that is a maximum, that is if the rate base however arrived at results in the fixing of a rate which is more than people will pay for the commodity, the rate base necessarily is too high, that is the rate must never exceed the value of the service as a maximum.

Q Mr. Hill, if you had been making a valuation of this plant for the purposes of a taxation appeal, what method of valuation would you have used, - reproduction costs new?

A For a taxation appeal?





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Q Yes.

MR. CHAMBERS: A property taxation appeal.

WITNESS: A property taxation appeal?

Q THE CHAIRMAN: Yes.

A I would have used reproduction costs.

Q And would you have added \$200,000.00?

A No, I would not have.

Q Now Mr. Hill, our statute says the property shall be taxed at its fair actual value and that is what we are trying to get at here; now why do you add \$200,000.00 in this and not add it in a taxation appeal?

A That is rather a hard question to answer.

Q I thought it would be, I wrote it out last night deliberately.

A I think that from an abstract position you are correct in saying that the valuation should be the same, but I think as a human being I would not have made them the same.

Q I am quite sure you would not have. Now if you were going to make a valuation, Mr. Hill, for the purposes of a stock or bond issue, what method of valuation would you have used, - reproduction costs new?

A I would use reproduction costs new and I think that I would have placed, - of course our practice down in the States since the S.C.C. came into being, as a general rule we do not generally use reproduction/<sup>costs</sup>new for stock and bond issues. What we do is this, we examine the property, we examine the balance sheet and see <sup>whether</sup> in our opinion the balance sheet does or does not reasonably represent the value of the property. If we find it over that value we say so and if we find it under we say so but we do not, under the present practice in the States, we do not put a reproduction value on a property for bond issues.



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Q Supposing you were going to make a valuation of this property for the purposes of a stock or bond issue to be sold in Canada, over which the authorities in the United States had no jurisdiction, what method would you have used?

A I would have used the same idea as in the States and I think I would have called attention to the sponsorship.

Q And would you have added \$200,000.00?

A I would have at least made the statement that I thought that the property had a value in excess of the sum of its physical components.

Q Would you put a figure on that?

A I might have or I might not have, depending on the conditions at the time.

Q Would you suggest that you would put any \$200,000.00 in the valuation?

A My client did not ask me, did you put a going value on this property, but he said to me, "You think this property has a going value" and I said "Yes I do" and he said "If you do, I wish you would put your thoughts in writing" and I did and that was the end of that. How much I fixed was done entirely on my own initiative without any help or any comment from the client.

Q If you had been making a valuation on behalf of a prospective purchaser of this plant, would your final valuation be exactly the same as the valuation which you have presented in your report?

A I think that is a fair statement, yes, it would have been.

Q You would have advised your client, apart from the Girbotol operations which we were discussing yesterday, you would have advised your client to pay \$200,000.00 going value?





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- A To be prepared to pay that, yes. I would advise him that he very probably would be required to pay more for this property than the depreciated reproduction costs and that if he was required to do so I would advise him to pay more for it.
- Q Now if you were asked to make valuations or two separate valuations of the other two Departments of the Royalite, and you were not told the purpose for which the valuation was required and you had no suspicions yourself as to what it was needed for, would you have added going value to each of them?
- A I depends upon what I found but I think if the going value exists I would have added it.
- Q And how do you arrive at it, how would you arrive at it?
- A In arriving at it on a non-utility property I would look at the earnings and I would consider whether or not those earnings were higher than those which I would normally expect from a property of the kind under consideration. If there were I would consider that that Company had a going value based on the excess earnings and I would have capitalized the excess earnings on some basis and arrived at some figure for the going value.
- Q You did not use that method here?
- A No, I did not know what the earnings were.
- Q Now keeping in mind that there had been an increase in the cost of labour and materials of 23.2%, which may disappear when the war is over and which is an inflation due to the war, would you be prepared to advise a purchaser to purchase with that inflated value added which may disappear in a few years or would you give him any advise on that point and if so what advise would you give him?
- A Well I would have to put the facts up to him and let him use his own judgment, let him form his own judgment as to whether



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he felt that the present day level of prices was something closely approaching that which was to continue.

Q Then you would not charge him a fee then?

A Oh, I would charge him a fee if he hired me. I would say, "Here are the facts, here are the facts, now you form your own judgment. This is the range, this property cost so many dollars to build, the reproduction costs are so many dollars. I think, we think that that reproduction cost is a fair figure and we would advise you to pay it, but you would have to form your own judgment as to whether or not you should because it is purely a matter of whether or not, as to what is going to happen after the war."

Q Now I gathered that you did not agree with the Supreme Court of the United States in its Hope Natural Gas case judgment?

A No, I did not agree with that.

Q And I suppose from that we can assume that you subscribe to the principles laid down in Smyth & Ames?

A I think a Commission or Court considering a rate base has to give consideration to reproduction costs. I am not sufficiently hidebound to say that that is the only thing which should be put in it.

Q Tell me some of the others, what are the other things they should consider?

A They should consider present day value and I know of no better way to consider present day value than the reproduction costs now conservatively made. They should consider historical costs and the circumstances under which that cost was incurred, namely whether it was built by an operating organization or whether it was built at one single time under normal construction conditions and they should consider the value of the





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services, that is what the property is worth to its users and they should consider that as a maximum rate above which they should not go, no matter what rate base they use. That is the top. They must not go higher than the product is worth because if they do the users will not buy it.

Q That is what the Court lays down in Smyth vs. Ames but you have not applied all of them, no doubt you have good reasons for not doing so?

A I knew that the accountants were doing the job of original costs, I knew that the Commission would have that information before it.

Q Oh I see, then perhaps I am being unfair to you, Mr. Hill. You prepared the value on the basis of reproduction new?

A Yes.

Q And you said "There is my opinion"?

A "There is my opinion" and I knew that Mr. Hamilton and Mr. Kirkpatrick, they are working on the books or would work on the books.

Q But reproduction costs new is rather a rigid formula is it not?

A It is a rigid formula, yes. It has certain objections. If an engineer uses that formula without, if he uses it without thought, that is if I came in here and took the peak war time costs in every respect I would think that I was not doing a fair job and I did not do that. I took them in some cases and discounted them in others and said so and I think I made a very fair reproduction cost valuation. It exceeds the actual cost by a well known amount. Now that, you have to think about.

Q Could it be said, Mr. Hill, that the value of a property



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results from the use to which it may be put and that apart from that, it had no pecuniary value?

A That seems to me another way of stating my value of the services.

Q That is right.

A My value of the services is the maximum, that is the property of course if it is not in use for a natural gas business, has a lesser value than if it is used for the natural gas business. It would have to be entirely recast and used for some other purpose.

Q And that leads to my last question I hope, you did not consider capitalizing revenue as a method of arriving at value?

A No, because revenue is fixed by some one else, the revenues are to be determined in this case.

Q No, I speak of prior revenues.

A No, I did not know what the prior revenues were and I did not do it.

Q That is a recognized method of valuation, is it not Mr. Hill?

A- No, not in utility properties.

Q Not in utility properties?

A No.

Q But it is a recognized method in the United States is it not?

A Not in the utility valuation, but otherwise yes, it is the best method I know of.

Q Why is it not applicable to the valuation of a Company which is coming under public utility regulation for the first time?

A In this particular case the property which is coming under regulation for the first time is not entirely a property, - that is there have been additions made.





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Q Well I did not intend to tie you to this property, Mr. Hill, I wanted it on general principles, as a general principle why should not the capitalization of revenue be a perfectly sound method of arriving at the value of a property which is coming under regulation for the first time, - I agree with you after that it does not apply.

A I think that the Commission would do well to consider their past earnings.

Q Yes, as a factor.

A As a factor. You will have to be careful that it does not, that it adds to the valuations thus arrived at the additional costs which have been incurred since those earnings were made.

THE CHAIRMAN: Anything more from anyone?

MR. CHAMBERS: Well I am going to re-examine Mr. Hill but I do not propose to proceed with it now. I want to give a little thought to whether we will deal with the evidence which Mr. Steer is going to offer. I understand he is going to give us a summary and I want to talk to this witness about that so I have decided that I will ask Mr. Hill to stay until next Monday.

THE CHAIRMAN: Now Mr. Hill, you will be here at the beginning of the week?

WITNESS: I will be here Monday.

MR. STEER: Might I ask what position I am in with regard to Mr. Morton?

THE CHAIRMAN: My understanding, Mr. Steer, was that he would not be required until after the adjournment.

MR. STEER: Very good sir. Now there are two questions here on which I require his assistance, one is the



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alteration, or the possible alteration of the scrubbing plant and the second is the operating costs. If it could be arranged that that would all be dealt with at the same time it would avoid the necessity of his making two trips back.

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MR. CHAMBERS: Well, Mr. Hill as I understand will not deal with the operating expenses, It will be Mr. Stevens-Guille or Mr. Kirkpatrick.

MR. STEER: But I am trying to avoid two trips to Mr. Martin, if it is possible. In other words, my suggestion is that when we have Mr. Martin's evidence in with respect to the operations in the scrubbing plant, at the same time consideration ought to be given to the operating costs at that time.

THE CHAIRMAN: Well, whatever we can do, Mr. Steer, to avoid unnecessary trips or unnecessary expenses, that shall be done, and I am quite sure Mr. Chambers will choose witnesses who can give the figures which will be required as a basis for your witnesses' evidence. Is that right, Mr. Chambers?

MR. CHAMBERS: I might be interested in knowing what this witness' ideas are about operating expenses, and it might be more valuable for to have it and we could test them, and if we could have that information for the cross-examination or during the cross-examination.

THE CHAIRMAN: Well Mr. Chambers, we are not running a lawsuit.

MR. CHAMBERS: Oh no.

THE CHAIRMAN: We are holding an Inquiry and we are not going to be technical about matters of that kind.

MR. CHAMBERS: No, but I do suggest that the evidence as to operating costs, we have put them in statements now that have been distributed, and I suggest we have not been backward in giving the information.

THE CHAIRMAN: No, there is no suggestion of that, Mr. Chambers.

MR. CHAMBERS: But why is it that I am called upon to necessarily put a witness in before the Gas Company calls





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a witness. I mean I am not trying to be technical but I just think we should take the things in the ordinary way when they come.

THE CHAIRMAN: Now look here, Mr. Chambers, you and Mr. Steer can just discuss the matter and arrange between you what you are going to do. I do not want this witness to be put on here for a third trip. He has made one, he has to make another, and I do not desire to bring him back for a third.

MR. CHAMBERS: I do not think there will be any necessity for that.

THE WITNESS: There was one little matter which Mr. Steer asked me to get for him, which I have got for him, the age of the pipe and the age of the towers.

MR. CHAMBERS: I thought we would put that in on Monday, Mr. Hill.

THE WITNESS: All right.

THE CHAIRMAN: Adjourned to 9.30 A.M. Monday.

(The Hearing was then adjourned to April 16, 1945, 9.30 A.M.)

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